Comptroller of the Currency
Administrator of National Banks

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Robert Logan Clarke became the 26th Comptroller of the Currency on December 10, 1985.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation and as a member of the Federal Financial Institutions Examination Council.

An attorney, Mr. Clarke was formerly with the law firm of Bracewell & Patterson in Houston, Texas. He joined the firm in 1968 and founded its Banking Section in 1972.

Mr. Clarke received a B.A. degree from Rice University in 1963 and an LL.B. degree from Harvard University Law School in 1966. He served as a Captain in the United States Army from 1966 to 1968.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letters series, summaries of enforcement actions, statistical data and other information of interest to the administration of national banks. Suggestions, comments or questions may be sent to Tibby Ford, Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for $60 a year by writing to Publications—QJ, Comptroller of the Currency, Washington, DC 20219.

Quarterly Journal

Office of the Comptroller of the Currency

Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

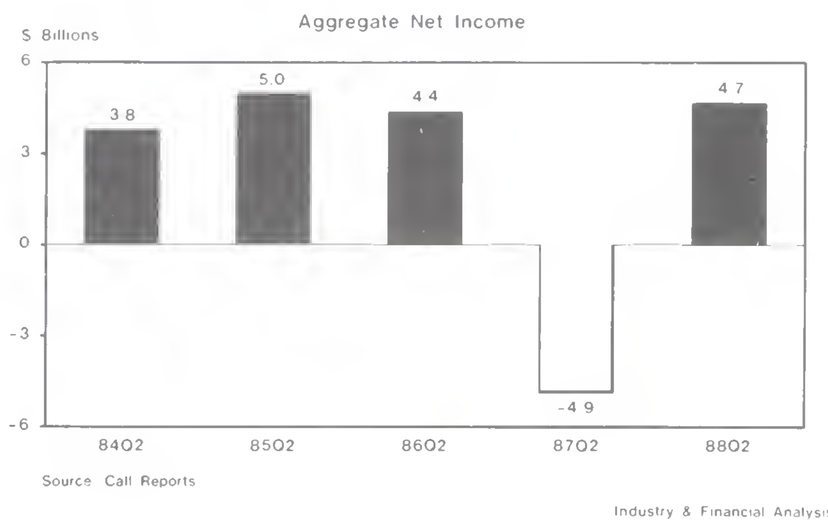
Contents

Operations of National Banks

Profits Are Up Significantly at Large National Banks

National banks realized healthy second quarter earnings of $2.45 billion, boosting their net income to $4.7 billion for the first half of 1988. This represents a sharp improvement over the first half of 1987, during which national banks, in the aggregate, posted losses of $4.9 billion.

PROFITS REBOUND AT NATIONAL BANKS

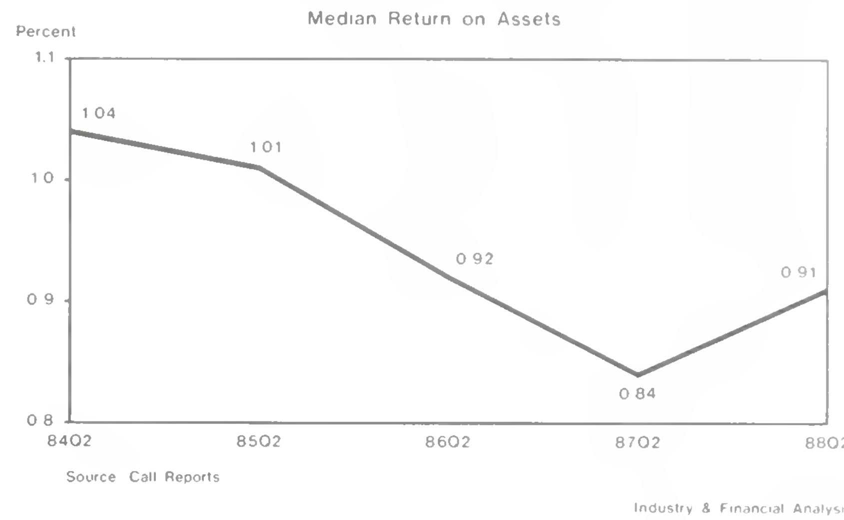


The dramatic increase in aggregate profits through the first half of this year should, however, be kept in context. The 29 largest national banks, those with assets in excess of $10 billion, were responsible for most of the increase. These banks lost $7.2 billion in the first 6 months of 1987, but earned $1.8 billion through the second quarter of this year, a $9 billion increase. Their losses in 1987 were principally the result of special loan loss provisions they made against their loans to developing countries. Earnings have improved this year because these banks have not found it necessary to set aside further reserves, in any significant quantity, against these loans.

Although earnings also improved among smaller banks, the increase was not nearly as dramatic as it was among the large banks. The more than 4,400 national banks with less than $10 billion in assets earned $2.9 billion in the first 6 months of this year, up only $0.6 billion compared to the first half of 1987. Most of these banks have little or no foreign exposure; therefore their earnings have not been buffeted by special loan loss provisions against developing country debt.

Overall, the median return on assets (ROA) of national banks in the first 6 months of this year was 0.91 percent, 7 basis points higher than in the corresponding period last year. Despite that improvement, median ROA was still 13 basis points below the level of 4 years ago.

PROFITABILITY UP SLIGHTLY
FROM DEPRESSED LEVEL

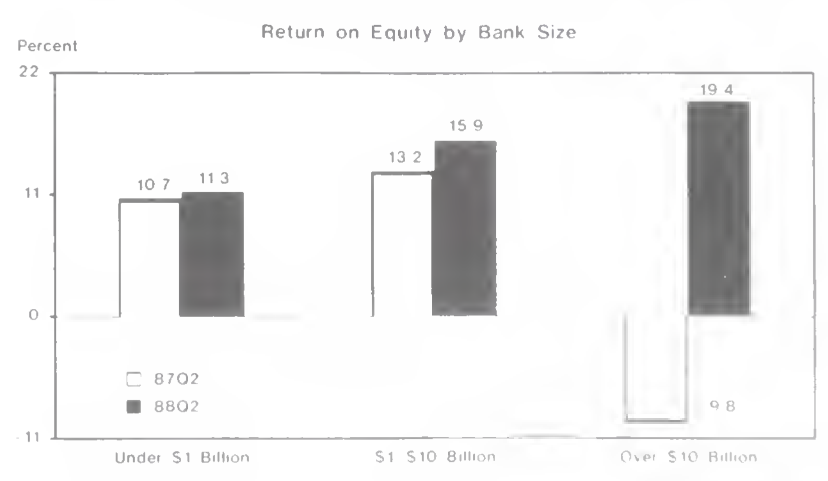


The rise in income among the 29 largest banks clearly had a substantial impact on the aggregate earnings of national banks. This is not surprising because these 29 banks account for nearly half of all national bank assets. Their results, however, did not materially affect the overall median ROA of national banks, a measure of bank profitability. This is because the median, or middle value, is not significantly affected by a few banks, even the very largest ones.

Large Banks Realized High Return on Equity

Large national banks, in addition to a significant increase in profits, also enjoyed a boost in their return on equity (ROE). In the second quarter, the median ROE among the 29 largest banks was 19.4 percent, the highest among all national banks groups according to size category.

LARGE BANKS ENJOY RELATIVELY HIGH ROE

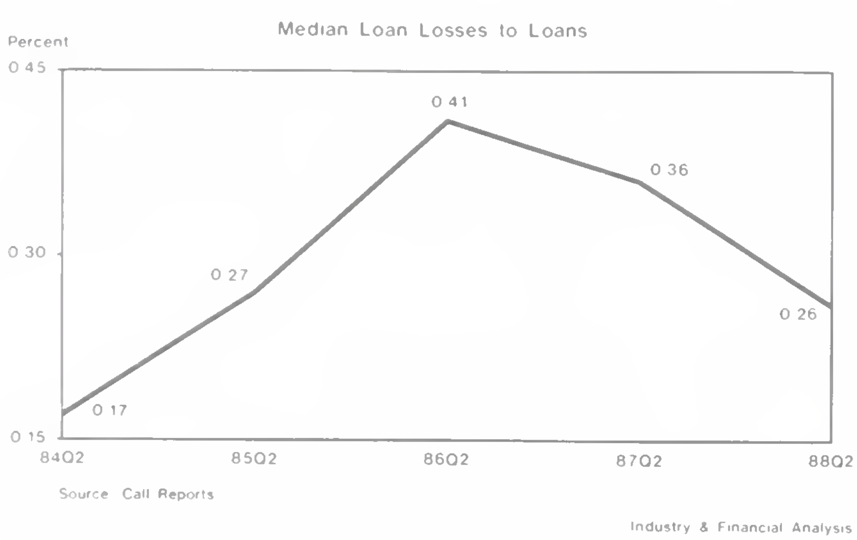


It is important to understand, however, that the relatively high ROE at the large banks is due, in part, to a reduction in their equity capital during the first half of 1987. Their equity capital dropped $4.3 billion between the second quarter of 1986 and the second quarter of 1987. The special loss reserve established by the large banks in the second quarter of 1987 contributed to this reduction in their equity capital. The fall in equity capital has, in turn, had the effect of increasing the ROE, for a given level of income, at these banks. ROE tends to be lower among smaller banks; they generally have higher levels of equity capital, relative to assets, than the largest banks.

Credit Quality Improved Again

Credit quality improved at national banks in the first half of this year, continuing a trend begun in 1987. The median ratio of net loan losses to loans, at 0.26 percent, was 15 basis points below its level of 2 years ago. Nonperforming assets at national banks also fell in the second quarter, and the median ratio of nonperforming assets to assets was 1.22 percent, its lowest second quarter level since 1985.

LOAN LOSSES DECLINE AT NATIONAL BANKS

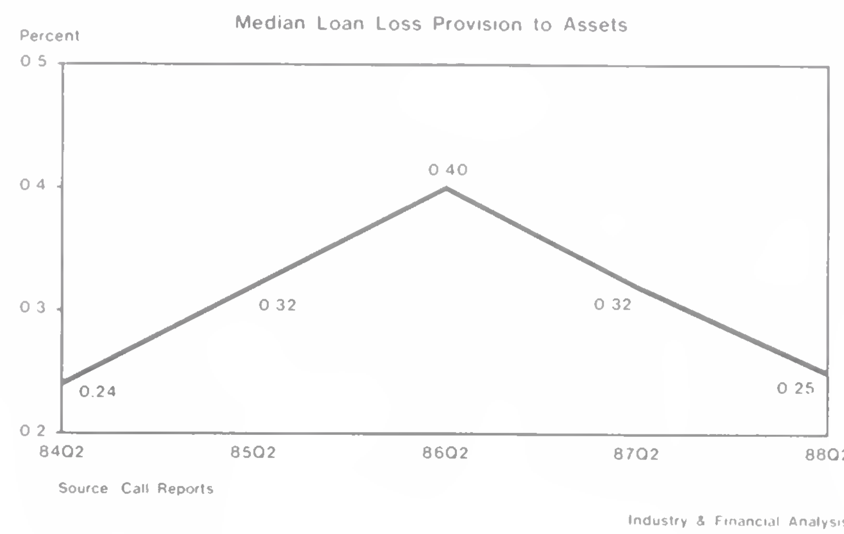


With improved credit quality, national banks have lowered their quarterly provisions for future loan losses. As of the second quarter of 1988, the median ratio of loan loss provision to assets for all national banks was 0.25 percent, its lowest level since the second quarter of 1984. The lower provisions have, of course, contributed to higher earnings, especially among the largest national banks.

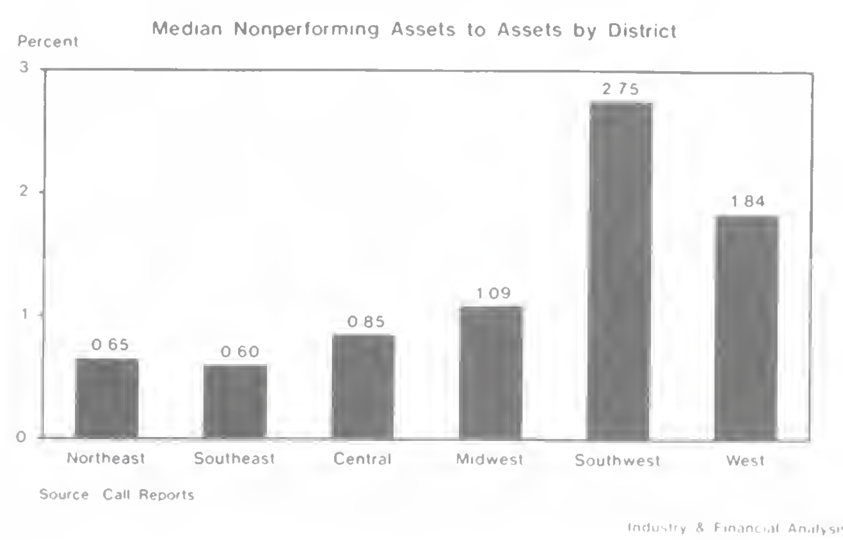
Problem Loans Burdened Southwestern Banks

Although widespread, improvements in credit quality were not nationwide. National banks in the Northeastern District and the Southeastern District continued to experience the lowest rate of nonperforming assets, less than 0.7 percent in both districts. By contrast, national banks in the Southwestern District continued to be burdened by unusually high levels of problem loans. Their median nonperforming assets, including Other Real Estate Owned (OREO), represented nearly 3 percent of their total assets, compared to a median rate of approximately 1 percent of assets in the U.S. as a whole. The median ratio of net loan losses to loans at Southwestern national banks was almost four times the U.S. median.

NATIONAL BANKS LOWER THEIR PROVISIONS



SOUTHWESTERN BANKS ARE BURDENED WITH PROBLEM LOANS



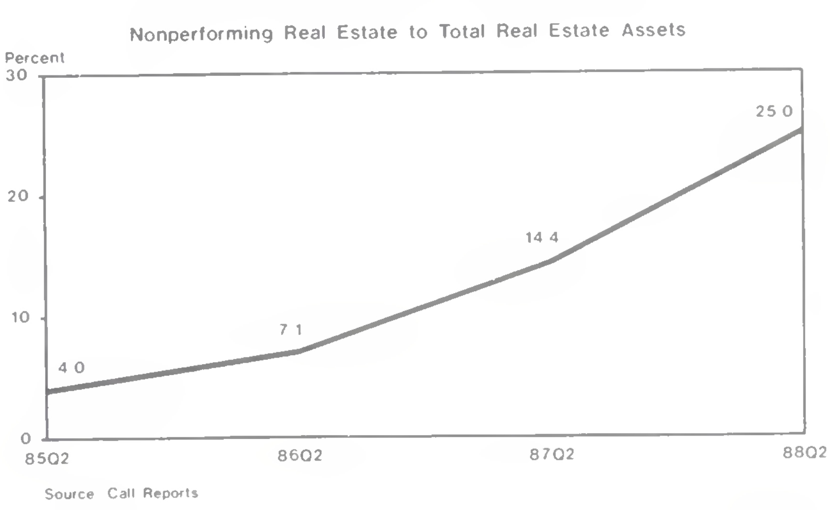
Real estate loans have been the source of many credit quality concerns in the Southwestern District, especially in light of the rapid increase in real estate lending that took place in the Southwest between 1982 and 1987. As the oil and gas industry began to retrench in 1982, many Southwestern banks redirected their focus to real estate lending, especially lending for commercial construction and land development, which can involve greater risks than conventional residential mortgage lending. The result was a veritable explosion in the real estate loan portfolios of many of these banks, particularly those in Texas. By the second quarter of 1987, real estate comprised 39 percent of the aggregate loan portfolio of national banks in Texas, compared to only 29 percent 3 years earlier.

Only in the past year has the real estate lending stopped growing as a share of the overall loan portfolio of Texas banks.

UNTIL THIS YEAR REAL ESTATE PORTFOLIOS GREW RAPIDLY IN TEXAS

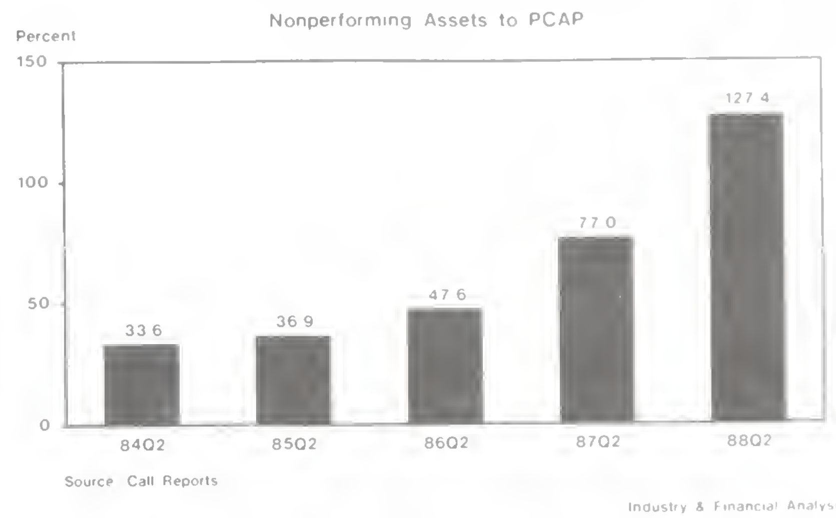
By the second quarter of this year, 25 percent of the real estate assets in Texas national banks were nonperforming; this included OREO, real estate loans that were 90 or more days past due, and real estate loans that had been placed on nonaccrual status. This represents a substantial increase in just the last 3 years; in 1985 only 4 percent of real estate loans at Texas national banks were nonperforming. The glut of office space and intense competition for tenants has left increasing numbers of real estate developers unable to meet their financial obligations.

A QUARTER OF TEXAS BANKS' REAL ESTATE PORTFOLIOS HAVE SOURED



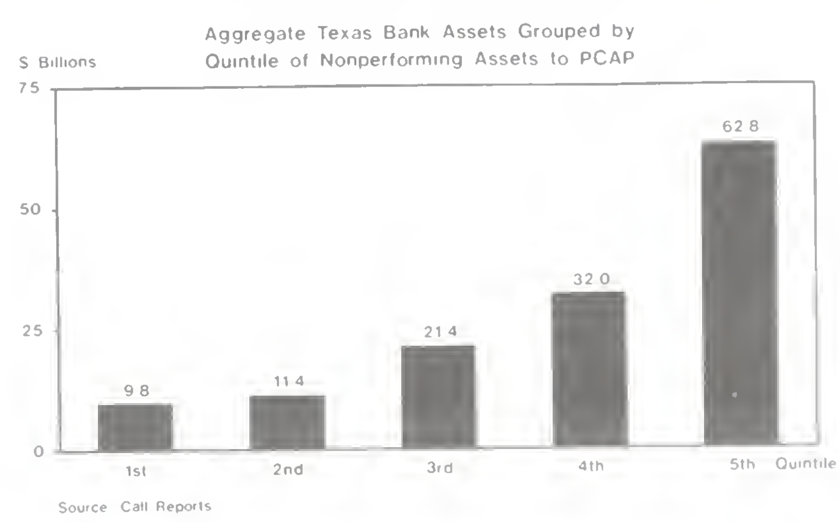
The significant deterioration in credit quality among Texas banks has made them vulnerable to future weaknesses in their loan portfolios. This is particularly evident when nonperforming assets are compared to primary capital; at many Texas banks, nonperforming assets now exceed primary capital. In fact, aggregate nonperforming assets have increased to 127 percent of primary capital at Texas national banks, compared to only 34 percent 4 years ago

NONPERFORMING ASSETS EXCEED CAPITAL AT TEXAS BANKS



This erosion of capital has been particularly evident among large national banks in Texas. To demonstrate this, we arrayed national banks in the state in ascending order according to their ratio of nonperforming assets to primary capital. The banks with the hightest ratios of nonperforming assets to primary capital accounted for a disproportionate share of national banking assets in Texas; as of the second quarter of this year, the 20 percent of banks with the highest nonperforming assets to primary capital ratios controlled nearly half of the total national banking assets in Texas.

THE LARGEST BANKS HAVE THE POOREST RATIOS OF NONPERFORMINGS TO PCAP

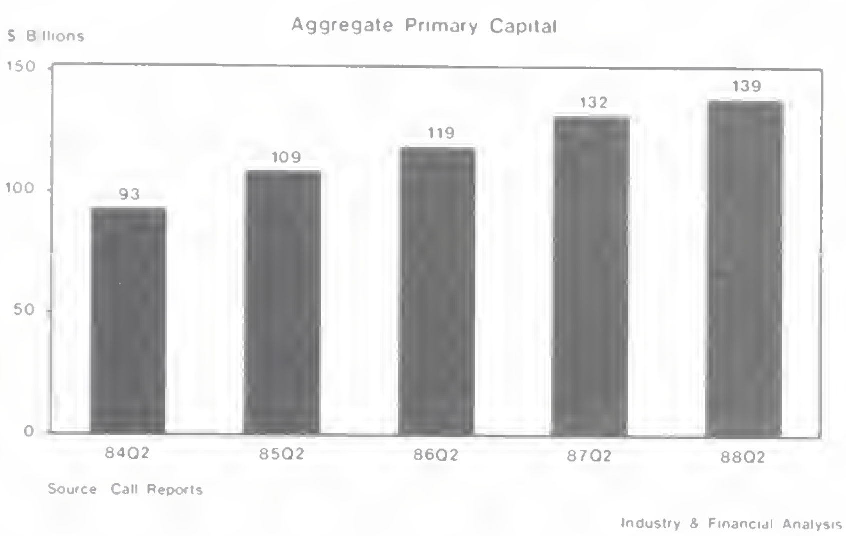


National Banks Build Capital

Outside of the Southwest, capital positions have generally strengthened, as credit quality has improved and capital has been increased. Primary capital at national banks has grown steadily, rising from $93 billion in 1984 to $139 billion in the second quarter. The rise in primary capital has contributed to an increase in the primary capital to assets ratios of the national banks; their median ratio of

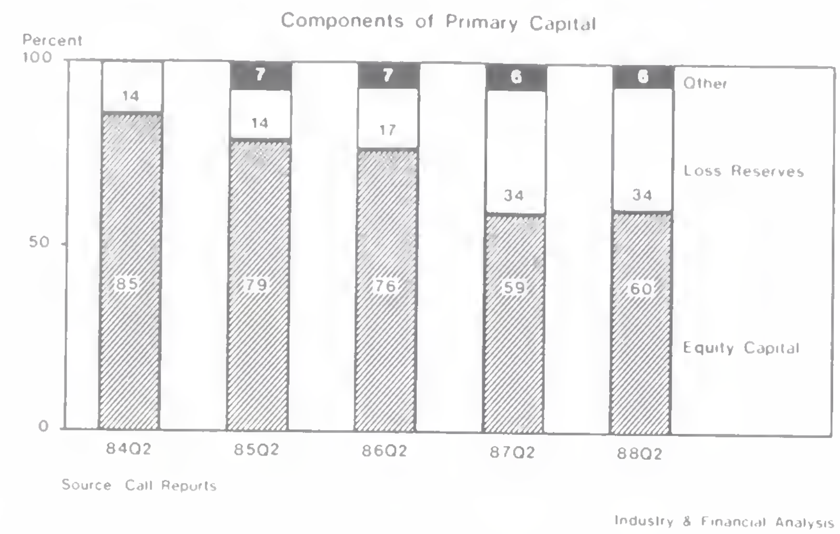
primary capital to assets has increased from 8.55 percent to 8.63 percent since 1984. A rising volume of primary capital coupled with a reduction in the rate of nonperforming assets at the majority of national banks have resulted in a drop in the median ratio of nonperforming assets to primary capital; it was 13 percent in the second quarter of this year, down from 16 percent 2 years ago.

NATIONAL BANKS HAVE INCREASED THEIR PRIMARY CAPITAL



This trend of rising primary capital has been particularly pronounced among the largest national banks. Their primary capital increased by $29 billion in the past 4 years. It is important to note, however, that much of the build up in their primary capital has been in the form of loss reserves. With the likely adoption of the risk-based capital guidelines, which will limit the amount of loss reserves that can be counted toward capital, a number of the large national banks may have to augment their equity capital.

RESERVES ARE A THIRD OF PRIMARY CAPITAL AT LARGE BANKS



Summary

National banks enjoyed a good second quarter, with a dramatic improvement in earnings compared to a year earlier. This favorable quarterly comparison can be attributed principally to developments among large national banks; in the 1987's second quarter, they set aside substantial reserves against Third World loans, which depleted their profits. For the remainder of national banks, earnings also improved, but much more gradually, and profitability remains below levels of 3 to 5 years ago. The exception to the improvements realized in the second quarter remains national banks in the Southwestern district, where weaknesses in real estate portfolios continue to depress earnings.

Rose W. Ho
Financial Analyst
Industry & Financial Analysis Division

Summary statistics for national banks

(Data through Second Quarter 1988)

	6/30/84	6/30/85	6/30/86	6/30/87	6/30/88	6/30/88 Over $10B	6/30/88 $1B-$10B	6/30/88 $0-$1B	6/30/88 New Banks[1]
Banking Aggregates									
Number of Banks	4,780	4,908	4,864	4,719	4,453	29	188	3 993	243
Total Assets ($ Billion)	1,432	1,524	1,643	1,712	1,794	798	595	390	11
Net Income ($ Million)	3,753	4,981	4,391	−4,906	4,705	1,778	1,674	1,236	17
Standbys & Commitments ($ Billion)	407	449	483	502	534	365	142	26	0 85
Percent of Banks with Losses	12.15	15.89	20.37	20.96	15.85	3.45	7 98	14 25	49 79
Number of Failed National Banks	12	13	24	37	25	0	0	25	0
Number of Problem National Banks[2]	163	254	301	314	325				
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	13.04	12.58	11.42	10.22	11.13	19.39	15.90	11.28	0 00
Return on Assets	1.04	1.01	0.92	0.84	0.91	0.89	1.00	0.93	0 00
Yield on Assets	10.85	10.50	9 68	8.63	8.74	8.35	8 49	8.74	9 14
Cost of Funding Assets	6.70	6.31	5.57	4.70	4.84	5.24	4.82	4 84	4.86
Net Interest Income to Assets	4.16	4.19	4.11	3.93	3.92	3.40	3 78	3.93	4 19
Loss Provision to Assets	0.24	0.32	0.40	0.32	0.25	0.36	0.40	0 23	0.40
Noninterest Income to Assets	0.66	0.67	0.69	0.69	0.69	1.37	1.30	0 66	0 80
Noninterest Expense to Assets	3.22	3.32	3.38	3.29	3.31	3 20	3.48	3 24	4 99
Net Operating Income to Assets	1.05	0.95	0.79	0.74	0.86	0.88	0 97	0 88	-0.02
Asset Quality (%)									
Nonperforming Assets to Assets[3]	0.97	1.19	1.38	1.40	1.22	2.35	1 10	1 26	0.21
Loss Reserve to Loans	1.02	1.11	1.27	1.41	1.46	3.10	1.46	1 48	0 99
Net Loss to Loans	0.17	0.27	0.41	0.36	0.26	0.81	0.47	0.26	0 05
Funding & Liquidity (%)									
Net Loans & Leases to Assets	53.49	54.98	53.85	53 69	54 44	62.43	65.18	53.69	56 48
Wholesale Funds to Deposits	9.70	10.57	10.66	10.04	10.88	36.50	15.74	10.19	20.38
Capital (%)									
Total Capital to Assets	8.69	8.79	8.71	8.74	8.76	7.48	7.56	8.79	11.03
Primary Capital to Assets	8.55	8.63	8.59	8.61	8.63	7.05	7.35	8.70	10.85
Equity Capital to Assets	7.96	8.00	7.85	7.78	7.82	5.04	6.26	7 87	10.30
Growth Rates (%)									
Assets	9.68	7.45	7.28	4.55	4.95	7.31	7.81	4 49	32.57
Equity Capital	8.15	7.98	6.76	5.44	5.77	11.00	9.93	5.78	0 14
Net Loans & Leases	16.83	9.85	5.67	4.97	7.11	8.82	11 91	6.37	34 33

[1]New banks are banks that have been in operation less than 3 years.
[2]Problem banks have composite CAMEL ratings of 4 or 5.
[3]Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO.
Industry & Financial Analysis

Summary statistics for national banks by district

(Data through Second Quarter 1988)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U.S.
Banking Aggregates							
Number of Banks	490	531	893	699	1,286	554	4,453
Total Assets ($ Billion)	639	259	292	115	189	301	1,794
Net Income ($ Million)	2,790	1,294	1,574	613	-2,777	1,211	4,705
Standbys & Commitments ($ Billion)	222	49	82	19	35	128	534
Percent of Banks with Losses	5.10	12.43	2.80	5.29	32.97	23.29	15.85
Number of Failed National Banks	0	0	0	0	22	3	25
Number of Problem National Banks[1]	5	6	15	34	221	44	325
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	14.15	12.85	12.70	12.63	6.32	8.23	11.13
Return on Assets	1.08	1.07	1.05	1.04	0.47	0.67	0.91
Yield on Assets	9.02	8.97	8.61	8.72	8.60	8.85	8.74
Cost of Funding Assets	4.92	4.86	4.87	4.86	4.97	4.31	4.84
Net Interest Income to Assets	4.21	4.10	3.78	3.86	3.69	4.60	3.92
Loss Provision to Assets	0.16	0.23	0.17	0.17	0.48	0.35	0.25
Noninterest Income to Assets	0.52	0.74	0.54	0.59	0.83	1.03	0.69
Noninterest Expense to Assets	3.15	3.47	2.85	2.91	3.54	4.55	3.31
Net Operating Income to Assets	1.07	1.04	1.02	1.02	0.41	0.61	0.86
Asset Quality (%)							
Nonperforming Assets to Assets[2]	0.65	0.60	0.85	1.09	2.75	1.84	1.22
Loss Reserve to Loans	1.00	1.15	1.23	1.72	1.97	1.65	1.46
Net Loss to Loans	0.08	0.19	0.15	0.15	0.85	0.40	0.26
Funding & Liquidity (%)							
Net Loans & Leases to Assets	63.92	57.52	54.60	48.88	51.24	56.69	54.44
Wholesale Funds to Deposits	7.91	11.72	7.00	6.46	20.12	11.55	10.88
Capital (%)							
Total Capital to Assets	8.49	8.97	8.76	9.09	8.56	8.66	8.76
Primary Capital to Assets	8.37	8.86	8.69	9.00	8.45	8.52	8.63
Equity Capital to Assets	7.71	8.23	7.94	8.10	7.54	7.47	7.82
Growth Rates (%)							
Assets	10.03	7.83	4.77	2.57	3.34	4.77	4.95
Equity Capital	9.95	7.83	6.63	6.04	0.26	4.72	5.77
Net Loans & Leases	16.06	12.54	8.85	6.58	-0.41	3.67	7.11

[1]Problem banks have composite CAMEL ratings of 4 or 5.

[2]Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO.

Industry & Financial Analysis

Summary statistics for insured commercial banks
(Data through Second Quarter 1988)

	6/30/84	6/30/85	6/30/86	6/30/87	6/30/88	6/30/88			
						Over $10B	$1B-$10B	$0-$1B	New Banks[1]
Banking Aggregates									
Number of Banks	14,339	14,301	14,103	13,758	13,199	36	314	12,193	656
Total Assets ($ Billion)	2,396	2,551	2,744	2,873	2,992	1,104	942	918	28
Net Income ($ Million)	7,470	9,351	9,044	-5,504	10,265	3,538	3,187	3,513	27
Standbys & Commitments ($ Billion)	602	671	719	751	797	511	225	59	2
Percent of Banks with Losses	9.99	13.01	15.85	16.45	13.03	2.78	7.32	11.16	51.07
Number of Failed Commercial Banks	43	51	63	95	86	0	0	86	3
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	13.46	13.47	12.31	11.02	11.40	20.81	15.79	11.58	-0.39
Return on Assets	1.12	1.11	1.03	0.93	0.97	0.95	0.99	1.00	-0.05
Yield on Assets	11.00	10.67	9.79	8.74	8.80	8.09	8.60	8.80	8.97
Cost of Funding Assets	6.80	6.42	5.65	4.75	4.85	5.17	4.88	4.85	4.75
Net Interest Income to Assets	4.22	4.26	4.16	4.00	3.96	2.99	3.76	3.96	3.96
Loss Provision to Assets	0.20	0.28	0.35	0.30	0.22	0.36	0.33	0.21	0.39
Noninterest Income to Assets	0.62	0.63	0.63	0.64	0.64	1.50	1.25	0.63	0.57
Noninterest Expense to Assets	3.14	3.18	3.23	3.18	3.18	3.06	3.46	3.13	4.55
Net Operating Income to Assets	1.12	1.05	0.89	0.84	0.92	0.89	0.96	0.95	-0.07
Asset Quality (%)									
Nonperforming Assets to Assets[2]	1.09	1.29	1.48	1.39	1.17	2.36	1.05	1.22	0.07
Loss Reserve to Loans	0.97	1.05	1.21	1.33	1.37	3.39	1.36	1.39	0.97
Net Loss to Loans	0.14	0.25	0.36	0.30	0.20	0.76	0.38	0.20	0.00
Funding & Liquidity (%)									
Net Loans & Leases to Assets	53.49	54.33	52.77	52.64	53.55	61.96	65.49	52.98	56.46
Wholesale Funds to Deposits	8.58	9.24	9.15	8.69	9.56	38.72	16.03	9.02	20.17
Capital (%)									
Total Capital to Assets	8.89	8.96	8.90	8.95	9.00	7.78	7.52	9.00	12.11
Primary Capital to Assets	8.74	8.84	8.78	8.83	8.89	7.13	7.29	9.00	12.02
Equity Capital to Assets	8.21	8.22	8.11	8.07	8.11	4.98	6.27	8.12	11.24
Growth Rates (%)									
Assets	9.32	6.96	6.87	4.47	4.59	5.65	8.61	4.27	38.35
Equity Capital	8.16	8.28	7.12	5.69	6.04	12.22	9.93	6.04	0.99
Net Loans & Leases	14.94	8.53	4.04	4.51	7.05	7.00	12.01	6.51	45.07

[1]New banks are banks that have been in operation less than 3 years.
[2]Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO
Industry & Financial Analysis

Summary statistics for insured commercial banks by district
(Data through Second Quarter 1988)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U S
Banking Aggregates							
Number of Banks	1,033	1,921	2,954	3,143	2,744	1,404	13,199
Total Assets ($ Billion)	1,166	417	485	205	271	449	2,992
Net Income ($ Million)	5,572	2,076	2,577	1,073	-2,734	1,701	10,265
Standbys & Commitments ($ Billion)	399	67	105	23	38	165	797
Percent of Banks with Losses	8.33	11.92	3.72	7.13	28.72	20.16	13.03
Number of Failed Commercial Banks	1	2	3	14	53	13	86
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	13.55	12.31	12.28	12.15	7.62	9.13	11.40
Return on Assets	1.06	1.08	1.05	1.07	0.62	0.76	0.97
Yield on Assets	9.05	9.12	8.71	8.73	8.63	8.99	8.80
Cost of Funding Assets	4.99	4.96	4.92	4.85	4.91	4.34	4.85
Net Interest Income to Assets	4.12	4.16	3.83	3.89	3.78	4.67	3.96
Loss Provision to Assets	0.18	0.24	0.16	0.16	0.43	0.31	0.22
Noninterest Income to Assets	0.50	0.75	0.50	0.53	0.80	1.01	0.64
Noninterest Expense to Assets	3.16	3.42	2.86	2.81	3.46	4.58	3.18
Net Operating Income to Assets	1.01	1.05	1.02	1.03	0.54	0.70	0.92
Asset Quality (%)							
Nonperforming Assets to Assets[1]	0.60	0.71	0.83	1.16	2.72	2.06	1.17
Loss Reserve to Loans	0.99	1.11	1.20	1.72	1.91	1.41	1.37
Net Loss to Loans	0.06	0.16	0.12	0.11	0.81	0.37	0.20
Funding & Liquidity (%)							
Net Loans & Leases to Assets	65.17	57.01	54.02	47.68	50.05	58.83	53.55
Wholesale Funds to Deposits	8.99	12.29	6.55	5.59	18.00	11.67	9.56
Capital (%)							
Total Capital to Assets	8.61	9.45	8.91	9.38	8.66	8.75	9.00
Primary Capital to Assets	8.45	9.37	8.83	9.26	8.53	8.60	8.89
Equity Capital to Assets	7.77	8.70	8.17	8.41	7.67	7.71	8.11
Growth Rates (%)							
Assets	10.64	8.18	4.91	2.45	2.16	5.63	4.59
Equity Capital	9.97	7.79	6.67	5.93	0.81	5.65	6.04
Net Loans & Leases	16.59	12.34	9.04	5.31	-1.15	4.77	7.05

[1]Nonperforming assets are loans past-due 90 days or more, loans in nonaccrual status, and OREO.
Industry & Financial Analysis

The Condition of the Texas Economy and Banking System

Aggressive Real Estate Lending Made Texas Banks Vulnerable

This study highlights the extent of difficulties besetting Texas commercial banks and the genesis of those problems. In so doing, it illustrates how overly aggressive behavior and excessive loan growth can make banks vulnerable to troubled economic environments and how prudent lending practices when economic conditions are good can greatly increase a bank's chances of remaining profitable even when economic conditions deteriorate.

Specifically, current weaknesses in Texas banks are concentrated in their portfolios of real estate loans; nonperforming real estate accounts for nearly 70 percent of all nonperforming assets in Texas. This follows a period of very rapid growth in real estate lending among Texas banks, during which real estate loans grew from only 23 percent to more than 40 percent of their total loans in just 5 years.

This increased real estate lending reflected, in part, a surge in the demand for real estate loans, especially for commercial development. The Texas economy was riding the crest of a sustained expansion and commercial development projects proliferated. As the pace of that expansion slowed, however, loans that were predicated on sustained growth in the Texas economy turned bad. Banks with imprudent management practices, ineffective oversight by directors, and poor loan administration practices and underwriting standards were the most vulnerable. Indeed, our examiners have found that these factors have contributed significantly to the failure of many commercial banks in the state.

Following Sustained Growth the Texas Economy Has Contracted Sharply

While much of the U.S. economy was stagnant during the late 1970s, the Texas economy entered a period of robust growth. As in many other Southern and Southwestern states, a migration of businesses and workers to the sunbelt region spurred the Texas economy. The real engine of growth in Texas, however, was the booming oil and gas industry, which benefitted from the surge in oil prices stemming from the Arab oil embargo in 1973 and the growing power of oil producing countries to influence world oil prices.

The Impact of Rising Oil Prices

The Texas oil boom was largely a price phenomenon. From 1971 to 1981, oil production in Texas actually fell 22.7 percent and no major new reserves were being discovered in the Permian Basin. Yet, the steady rise in world oil prices pushed up the average wellhead price of Texas crude from $3 per barrel in 1971 to $35 per barrel in 1981.

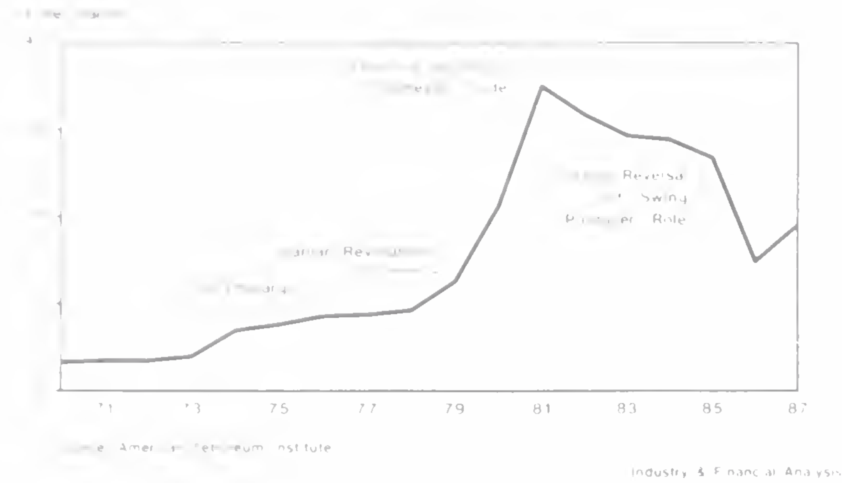
It was spectacular enough that oil prices more than tripled during the 7 years from 1971 to 1978; the fact that they tripled again in the next 3 years, 1978 to 1981, created an air of exultant optimism in Texas. New wealth was literally pouring into the state's economy. Between 1978 and 1981, for example, the value of daily oil production in the state soared from $10 million to $33 million per day, despite the fall in oil production.

The oil boom accelerated the pace of Texas' economic growth and spurred the creation of new jobs in all sectors of the Texas economy. Although the Texas economy is not strictly an oil economy — the state also has a large manufacturing and agricultural base — the Federal Reserve Bank of Dallas has estimated that 45 percent of all the new jobs created in Texas between 1972 and 1982 were the result, directly and indirectly, of oil and gas exploration and development.

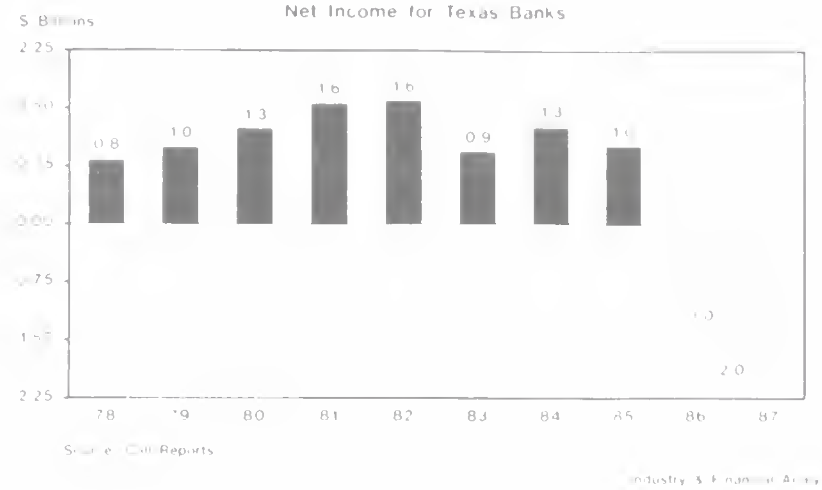
The Effect of Falling Oil Prices

The sharp rise in oil prices from 1979 to 1981 carried with it the seeds of the subsequent oil price correction. Around the world, new production wells were brought onstream, many in countries such as the United Kingdom that were not part of the OPEC cartel. At the same time, higher oil prices encouraged conservation and substitution, phenomena that occurred simultaneously with falling demand due to the spreading worldwide recession. As non-OPEC supplies of oil increased and world demand for oil fell, the, the OPEC cartel lost its ability to control crude oil prices. As a result, after 1982, Texas crude oil prices weakened, slipping to $29 per barrel by 1984

TEXAS CRUDE OIL PRICES WEAKENED IN 1981, COLLAPSED AFTER 1985

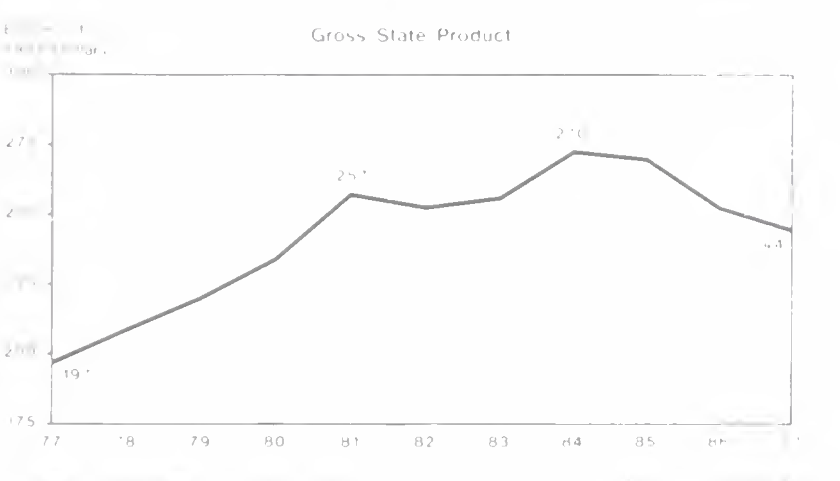


TEXAS BANKS HAVE LOST $3 BILLION IN THE PAST 2 YEARS



As oil prices began to weaken, so too did the rate of growth in the Texas economy. The state's economic output contracted in 1982, reflecting the severe U.S. recession that year. Although the state's economy grew again in 1983 and 1984, it growth rate was below the national rate. After 1984, the severe drop in oil prices, especially the sudden fall to $15 per barrel in 1986, pulled the Texas economy into a deep contraction; gross state product declined by more than 10 percent between the end of 1984 and the start of 1988.

AFTER A DECADE OF GROWTH, TEXAS SUFFERED A SHARP ECONOMIC CONTRACTION

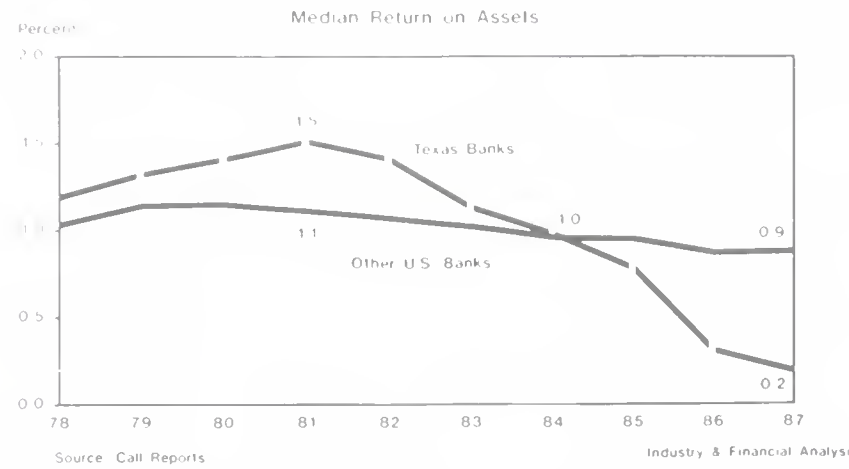


Texas Bank Profitability Plummeted

The performance of Texas banks mirrored the rapid swing in oil prices and the Texas economy. Aggregate net income for all insured commercial banks in Texas grew 20 percent in 1979, 30 percent 1980, and 23 percent in 1981. Although growth stopped in 1982, aggregate Texas bank profits were unchanged at $1.6 billion that year. Bank earnings then fell 31 percent, to an annual average of $1.1 billion, during 1983, 1984, and 1985. In the next 2 years, as oil prices plunged below $20 per barrel, banking profits disappeared completely; Texas banks lost a total of $3 billion, $1 billion in 1986 and $2 billion in 1987.

The rapid growth in the earnings of Texas banks before 1982 made them significantly more profitable than other U.S. banks. Median return on assets (ROA) for Texas banks peaked at 1.5 percent in 1981, 40 basis points higher than median ROA for banks in the rest of the country. Beginning in 1982, however, the profitability of the Texas banking system declined rapidly as earnings stagnated and then fell. The drop in Texas bank profitability was particularly steep in 1986 and 1987. Median ROA fell from 0.78 percent in 1985 to 0.20 percent in 1987 (70 basis points below the median for other U.S. banks).

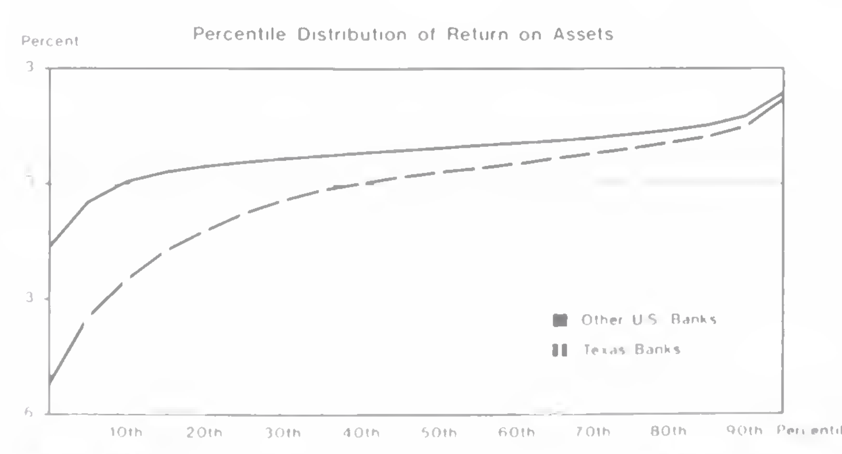
TEXAS BANK PROFITABILITY BEGAN TO PLUMMET AFTER 1981



Earnings Problems Are Widespread Through Texas

A more complete picture of the relative performance of the Texas banking system can be seen by comparing the

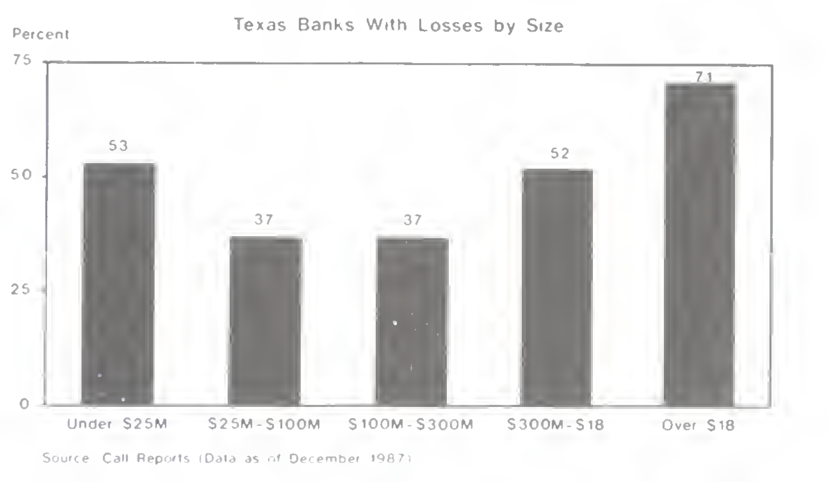
TEXAS BANKS ARE LESS PROFITABLE THAN OTHER U.S. BANKS



percentile distribution of ROA among Texas banks against the percentile distribution of ROA among all other U.S. banks. In 1987, Texas banks reported performance inferior to other U.S. banks across all percentile categories. Below the median, however, the relative performance of Texas banks deteriorates rapidly. In 1987, more than 40 percent of Texas banks lost money and the bottom 20 percent lost 1.74 percent more on their assets.

Which banks are losing money? Though the incidence of loss is highest among the largest banks, earnings problems in Texas are not restricted to them. More than 70 percent of banks with assets exceeding $1 billion reported losses in 1987, but more than half of the very small banks (with assets less than $25 million) also lost money. The lowest loss rate was among the banks with between $25 million and $300 million in assets. Even in those categories, however, about two in five Texas banks lost money in 1987.

MONEY LOSERS ARE MORE FREQUENT AMONG SMALLER AND LARGER SIZE CATEGORIES



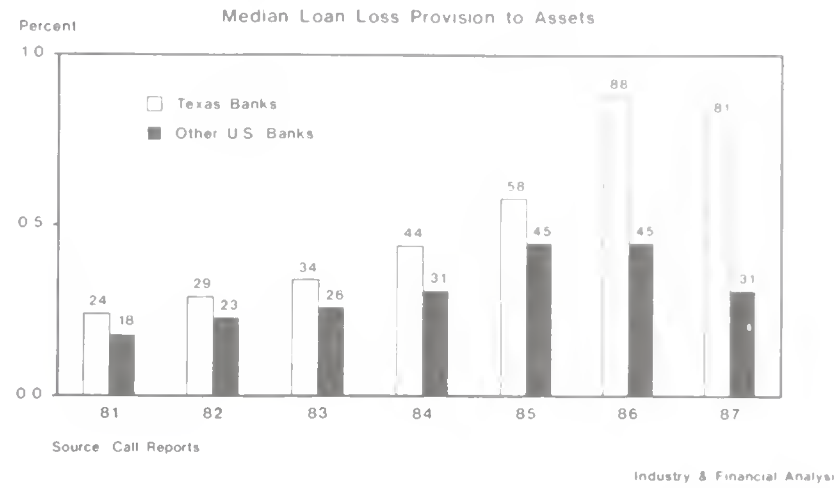
Sources of the Texas Bank Profitability Crisis

The profitability crisis among Texas banks stems from both the heavy charges against income that Texas banks have made to bolster their loan loss reserves and the progressive 6-year deterioration of net interest margins.

Loan Loss Provisions

Because loan loss provisions are a direct charge against income, they depress bank earnings. Since 1981, the rate at which Texas banks have made provisions for loan losses has consistently exceeded that of other U.S. banks. The difference has become striking during the past 2 years; by the end of last year, the median rate at which Texas banks were making provisions for loan losses was more than twice the rate of other U.S. banks.

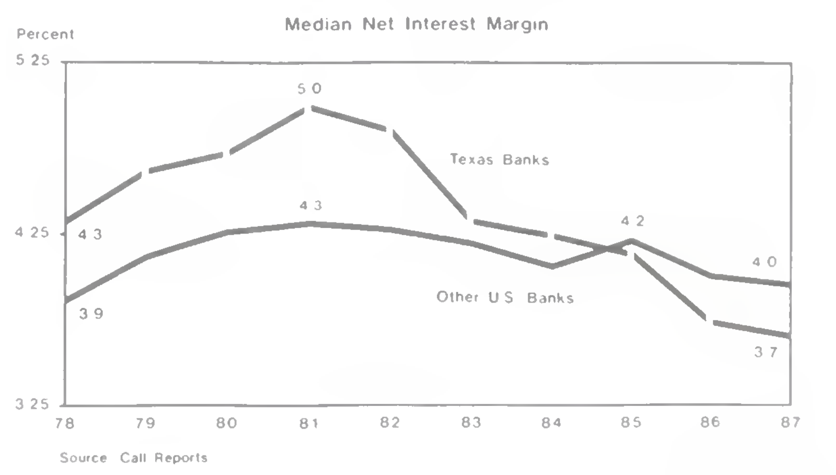
TEXAS LOSS PROVISIONS EXCEED THE NATIONAL RATE



Net Interest Margins

In addition to high loss provisions, Texas banks have also suffered from relatively low net interest margins. The relatively narrow margins in Texas reflect both the high price for funds paid by many Texas banks, compared to other U.S. banks, which raises their interest expense, and their growing volume of nonperforming assets, which reduces interest income. From a peak of 5 percent of assets in 1981, the median net interest margin for Texas banks declined to 3.7 percent of assets by 1987, a level that was 30 basis points below the median net interest margin for other U.S. banks.

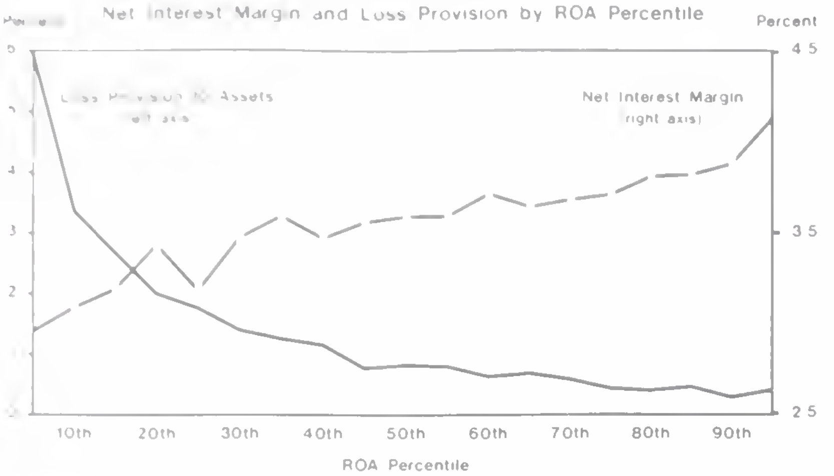
TEXAS NET INTEREST MARGINS DROPPED FOR THE SIXTH CONSECUTIVE YEAR



Effects of Loss Provisions and Interest Margins on Income

High loss provisions and low interest margins both reduce bank earnings. Not surprisingly, therefore, Texas banks with the poorest earnings in 1987 made the highest loss provisions that year and also realized the lowest net interest margins. Conversely, those with the highest earnings made the lowest loss provisions and earned the highest margins. The profitability of Texas banks will improve when loan loss provisions decrease and/or net interest margins increase.

LOW MARGINS AND HIGH LOSS PROVISIONS LOWER BANK PROFITABILITY



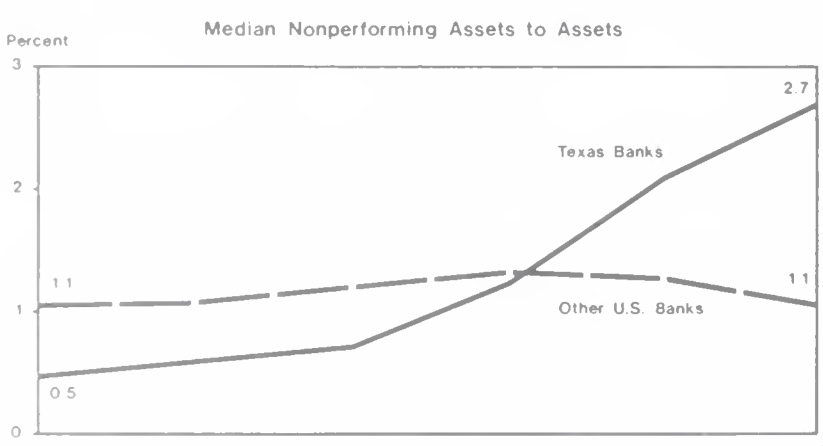
Source: Call Reports (Data as of December 1987) Industry & Financial Analysis

Nonperforming Assets Burden Texas Banks

Nonperforming assets are assets on which banks have not been receiving regular interest payments from their customers. Clearly, they contribute to earnings difficulties by cutting interest receipts and by necessitating high provisions for loan losses.

In Texas, nonperforming assets are prevalent. The median ratio of nonperforming assets to assets for Texas banks has more than tripled in the past 3 years, jumping from 0.7 percent of assets in 1984 to 2.7 percent of assets in 1987. During the same period, the median nonperforming assets ratio for other U.S. banks remained only about 1 percent of assets.

TEXAS BANKS ARE BURDENED BY HIGH AND RISING NONPERFORMING ASSETS

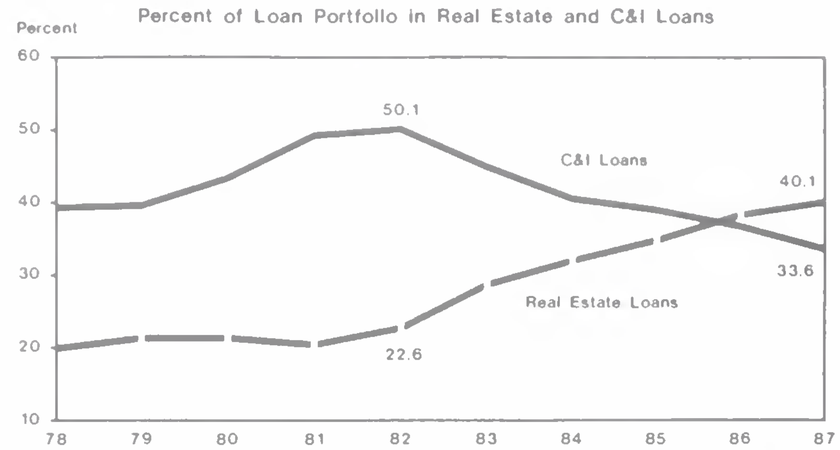


Source: Call Reports Industry & Financial Analysis

The Explosion in Real Estate Lending

Commercial real estate is the most prevalent source of credit quality problems at Texas banks. As oil prices weakened after 1981, construction and land development replaced oil and gas as the driving force behind the growth in the Texas economy. Bank lending reflected this spurt of construction activity. Real estate lending by Texas banks surged and commercial lending declined in importance. The turning point was in 1982, as commercial and industrial (C&I) loan demand stopped growing, due to the recession and the halt in new oil exploration and development, Texas banks steadily increased their exposure to commercial real estate.

REAL ESTATE EXPOSURE HAS RISEN AS COMMERCIAL LENDING HAS DECLINED



Source: Call Reports Industry & Financial Analysis

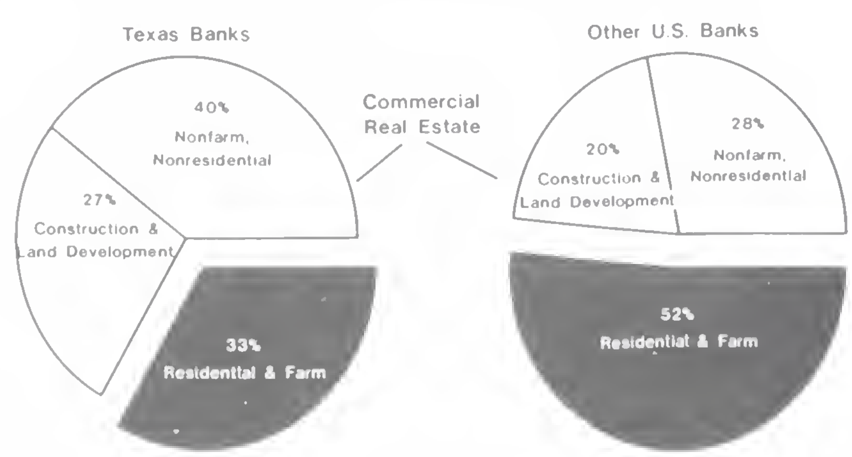
Real Estate Cencentrations in Texas Bank Loan Portfolios

By 1987, Texas banks held 40 percent of their loans in real estate, compared to only 23 percent in 1982. This growth was fueled by commercial real estate lending, essentially loans for construction, including land development, and nonfarm, nonresidential purposes. From 1978 through 1984, aggregate construction and land development loans at Texas banks grew at a compound annual rate of 32 percent. Loans for nonfarm, nonresidential properties also grew rapidly, at a compound annual rate of 25 percent.

As a result, Texas banks became more heavily involved in commercial real estate lending, including lending for the construction of warehouses, industrial parks, shopping malls, strip shopping centers, and, of course, office buildings. By year-end 1987, commercial real estate accounted for 67 percent of total real estate loans at Texas banks, compared to 48 percent at other U.S. banks.

TEXAS BANKS ARE NOW HEAVILY EXPOSED TO COMMERCIAL REAL ESTATE

Distribution of Real Estate Loans

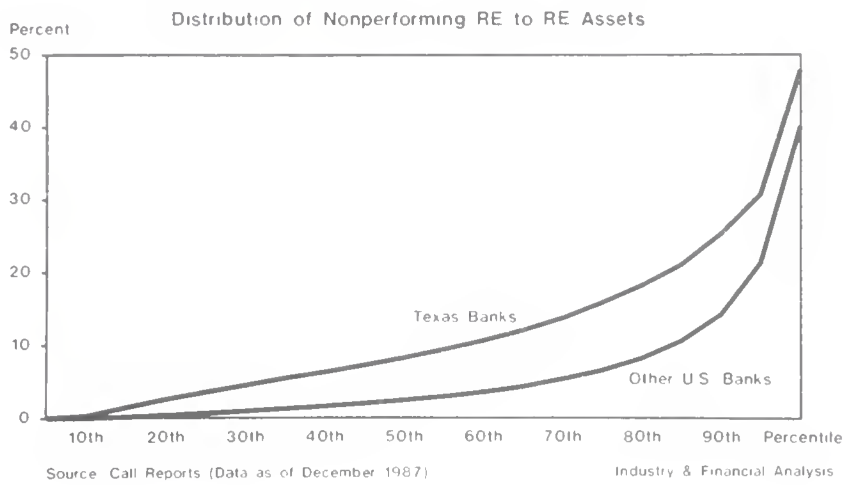


Source: Call Reports (Data as of December 1987) Industry & Financial Analysis

Nonperforming Real Estate Affects the Majority of Texas Banks

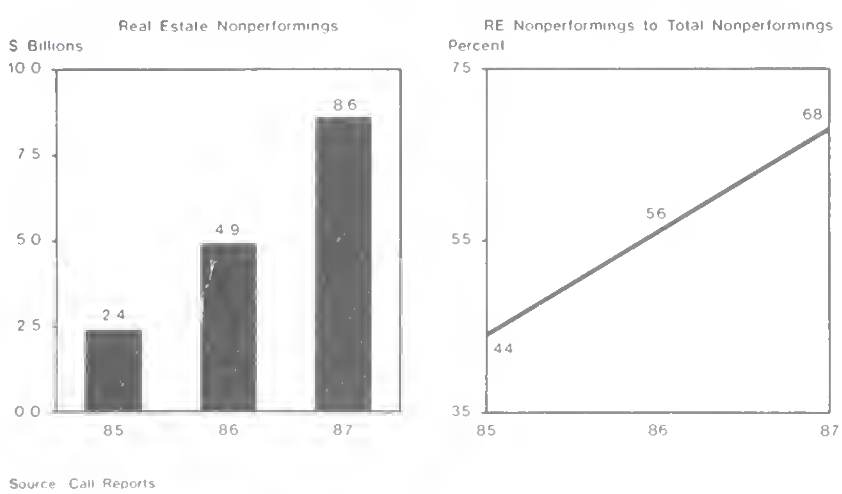
The real estate problems confronting Texas banks are widespread. The median ratio of nonperforming real estate to total real estate amounts to about 10 percent at Texas banks, a rate well in excess of the median for other U.S. banks.

NONPERFORMING REAL ESTATE AFFECTS THE MAJORITY OF TEXAS BANKS



More importantly, not only did nonperforming real estate in Texas banks more than triple in just 24 months, but nonperforming real estate, including other real estate owned (OREO), amounted to nearly 70 percent of all nonperforming assets in Texas banks.

NONPERFORMING REAL ESTATE FORMS THE CORE OF CREDIT PROBLEMS IN TEXAS



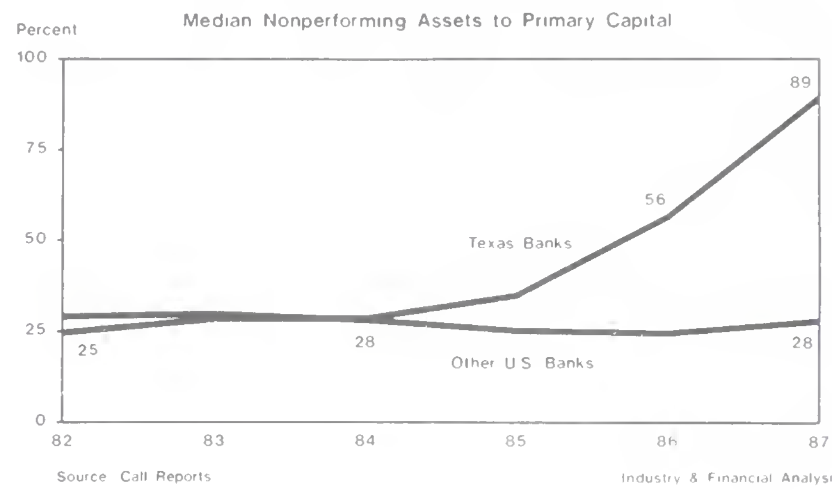
Capital Adequacy Has Deteriorated for Texas Banks

It is often said that earnings form the first line of defense for a bank against deteriorating credit quality. During the past 2 years, the spreading profitability crisis has meant that this first line of defense has been broken for many Texas banks. Consequently, banks' second line of defense, primary capital, has taken on even more importance.

Nonperforming Assets Burden Texas Banks

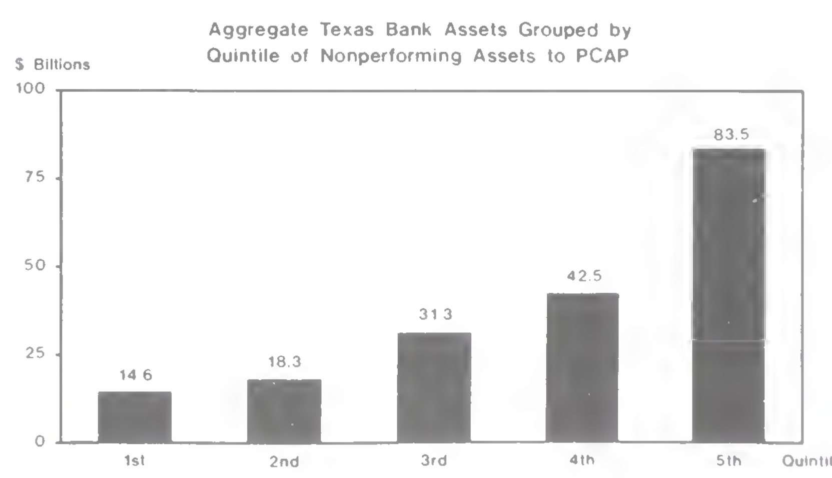
Traditionally, Texas banks have operated with slightly higher capital ratios than other U.S. banks, the median primary capital ratio at Texas banks exceeded that for other U.S. banks as late as December 1983. Unfortunately, in many Texas banks, the volume of nonperforming assets has now eroded the margin of safety afforded by the capital buffer. By yearend 1987, aggregate nonperforming assets had mushroomed to nearly 90 percent of primary capital at Texas banks, compared to less than 30 percent at other U.S. banks.

NONPERFORMING ASSETS BURDEN TEXAS BANKS



Of particular interest is the fact that the heaviest burden of nonperforming assets falls on the largest banks in Texas. As of December 1987, the 20 percent of Texas banks with the highest rate of nonperforming assets relative to primary capital held more than $80 billion in assets. At that time, these banks accounted for nearly 50 percent of total commercial bank assets in Texas.

THE LARGEST BANKS HAVE THE POOREST RATIOS OF NONPERFORMINGS TO PCAP



The Rise in Loss Reserves

In the face of rapid and significant deterioration in credit quality, Texas banks have substantially increased their loan loss reserves. This has, of course, depressed earnings and altered the mix of primary capital at these insti

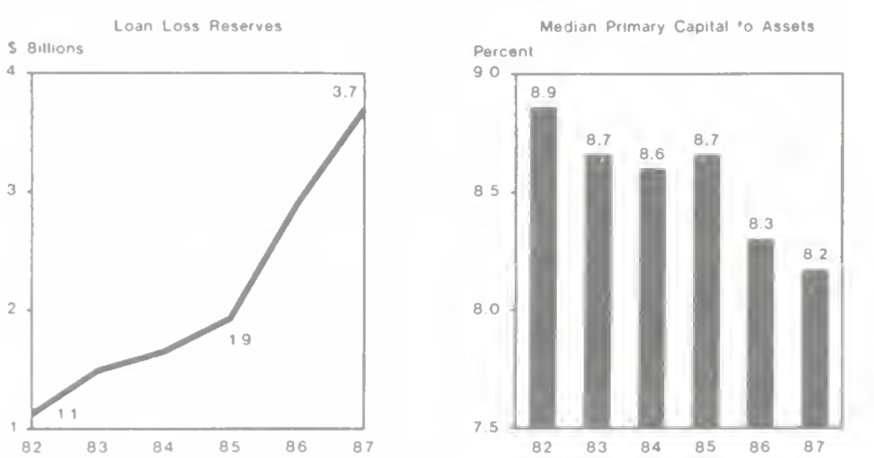
percentage of primary capital at Texas banks than at other U.S. banks.

In total dollar volume, the Texas banking system almost doubled its loss reserves between 1985 and 1987. Unfortunately, Texas banks have not been able to augment loss reserves fast enough to offset the decline in equity capital, especially during the past 2 years. As a result, median primary capital at Texas banks has dropped sharply since 1985.

Texas Accounts for a Disproportionate Share of Bank Failures

The severity of the Texas banking situation is confirmed by the high number of bank failures in Texas; last year, 50 commercial banks failed in the state. Although Texas accounted for only 13 percent of all insured commercial banks in the U.S., 28 percent of all commercial bank failures were in Texas.

DESPITE HIGHER RESERVES AT TEXAS BANKS, PRIMARY CAPITAL HAS FALLEN



Source: Call Reports

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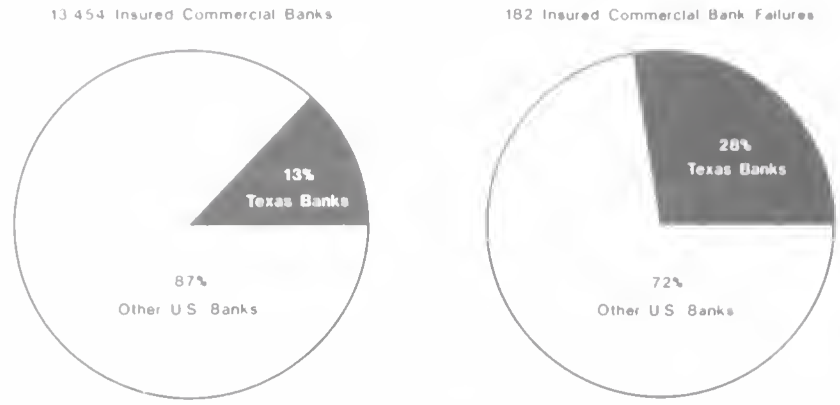
The number of bank closings in Texas is already even higher this year. As of the end of July, 83 Texas banks had failed during 1988, including 40 banks affiliated with First RepublicBank Corporation, which were closed on July 29. We have found that poor loan administration practices and underwriting standards have contributed significantly to the failure of many of these banks.

TEXAS ACCOUNTS FOR A DISPROPORTIONATE SHARE OF COMMERCIAL BANK FAILURES



Source: Call Reports, FDIC (Data as of December 1987)

Industry & Financial Analysis

Conclusion

The current weaknesses among Texas banks stem from imprudent management practices, especially the rapid expansion in real estate lending, for land development and construction particularly, beginning in 1982. The subsequent collapse of real estate markets, particularly the markets for commercial space, severely weakened their loan portfolios and resulted in high and rising levels of nonperforming loans and loan charge-offs. This poor credit quality has caused bank earnings to plummet and has contributed to an erosion in capital adequacy. Inevitably, bank failures have risen.

The unrealistic optimism, which led to rapidly growing loan portfolios and increasing concentrations of credit in many Texas banks, made them vulnerable. Over time, more prudent lending practices, infusions of capital, and economic growth will contribute to the recovery of most commercial banks in Texas. The lessons from the Texas experience, however, are more universal than that. While this study helps us to understand the origin and the extent of the financial stress now facing commercial banks in Texas, the real lesson may be in the recognition of banking practices to avoid in order to prevent a recurrence of similar problems in other parts of the country.

Industry & Financial Analysis Division
and Environmental Analysis, Southwestern District

Recent Corporate Decisions

On July 12, 1988, the Office approved an operating subsidiary for International Bank of Miami. This represented the bank's first step in converting loans to developing countries into stock of a foreign corporation. The bank proposed to establish the subsidiary solely for the purpose of holding the shares of a Chilean insurance company which the bank, exercising its authority to receive property in satisfaction of debts previously contracted, expected to acquire in exchange for Chilean debt under the Chilean government's debt/equity swap program. The novel question was whether a national bank could legally own a subsidiary established under the laws of a foreign country. It was determined that since the bank could receive foreign property in satisfaction of debts, and the Chilean incorporation might facilitate disposal of the property and provide certain tax benefits, the bank could legally hold stock in the subsidiary. Once this approval was granted, the bank modified its plans by submitting a letter of intent to establish a domestic subsidiary which would own 100 percent of the above-referenced foreign Chilean subsidiary. That proposal was approved on July 27, 1988.

On July 15, 1988, approval was granted to the First National Bank of Chicago to establish an operating subsidiary, FNBC Leasing Corporation, to engage in lease financing transactions under the authority granted in Section 108 of the Competitive Equality Banking Act of 1987. This was the first such proposal received by the Office under the Act. Because Section 108 is so broadly written, it was agreed tha the lease financing activities should be conducted with a number of guidelines. These guidelines were outlined in the Office's letter to the bank.

On July 29, 1988, all Texas banking subsidiaries of First RepublicBank Corporation were declared insolvent. They were immediately acquired by a bridge bank chartered by the OCC. Since NCNB Corporation was the winning bidder in the negotiations for First RepublicBank, the agreement was executed by NCNB and the FDIC and the bridge bank was immediately renamed NCNB National Bank. What distinguished this transaction from other Texas acquisitions was the fact that NCNB did not acquire 100 percent of the bridge bank; it acquired a 20 percent interest in the capital of the bridge bank which represented 100 percent of the voting common stock. NCNB also acquired various options to purchase the remaining 80 percent of the institution over several years. Prior to exercising its options, NCNB will co-manage the bridge bank with the FDIC. Additionally, NCNB did not establish a "liquidating bank" to manage the nonperforming assets. Instead, a separate department within the bridge bank was established to manage those assets.

On August 4, 1988, the Office approved a new bank charter in California on the condition that two of the organizers be prohibited from serving as executive officers of the proposed institution. The individuals were involved with a company that had recently emerged from Chapter XI bankruptcy and it was the opinion of the Office that management of that company would require an inordinate amount of the individuals' time. As such, they would be unable to devote the necessary amount of time to the proposed bank to ensure that it would have a reasonable likelihood of success. The remaining organizers were considered excellent and the proposed chief executive officer possessed good credentials.

On August 19, 1988, the Office denied a charter application in Arkansas because of a weak and unrealistic operating plan and a weak organizing group. The organizers did not demonstrate that they possessed the qualifications to succeed in the market area where the economy was weak and competition was intense.

On August 22, 1988, the Office approved an operating subsidiary for Mellon Bank, National Association, to acquire Vertical Technologies, Inc., a company that provided software applications and systems to financial institutions. The novel issue involved in this proposal was whether a national bank should be permitted to sell data processing software that was not developed and utilized in-house by the selling bank. The Office decided that the activities were permissible for a national bank as long as the services were only sold to other financial institutions.

The Office, on August 29, 1988, denied an application to charter a bank in Pennsylvania due to the less than satisfactory banking records of two members of the organizing group, the remaining organizers' lack of familiarity with the bank's proposed operating plan, and the lack of factual data to support the proposed operating plan.

Also on August 29, 1988, the Office approved a quasi-reorganization for First National Bank in Lenox, Iowa. Although similar proposals have been approved in the past, the new owner in this case requested a waiver of the Office's policy requiring a bank's capital be brought into compliance with established capital guidelines, and requested permission to continue operating the bank under an approved capital forbearance plan. In the opinion of the Chief National Bank Examiner's office, the approved capital forbearance plan met the office's definition of adequate capital.

On August 30, 1988, the Office denied a charter application in California because the applicants failed to present a realistic operating plan and a majority of the organizers were not familiar with the plan that was submitted. In addition, the proposed senior officers' knowledge and experience were considered less than adequate for their respective positions.

On August 30, 1988, the Office denied a Change in Bank Control notice in Florida submitted by individuals acting in concert to acquire 56 percent of the bank. The proposal was denied because three members of the group had unsatisfactory banking backgrounds.

On September 6, 1988, the Office denied a national bank's request to process a corporate reorganization merger under the emergency provision of 12 U.S.C. 1828(c). This provision permits the Office to expedite such mergers. While the condition of the target bank, located in Texas, was considered critical, failure of this institution in the immediate future was not evident. As such, the application was processed under standard merger procedures.

ITT Corporation, Minneapolis, Minnesota, filed an application to establish a credit card bank under the provisions of the Competitive Equality Banking Act of 1987 (CEBA). After a thorough review, which included a legal analysis of the pertinent sections of CEBA, the Office approved the application on September 15, 1988. The bank will be located in Cincinnati, Ohio.

On September 20, 1988, the Office approved an interim bank charter for The One Interim National Bank, Brockton, Massachusetts. The Interim National Bank was being used, through a reverse triangular merger, to facilitate the acquisition of a state savings bank by a bank holding company in Portland, Maine. In a reverse triangular merger, a bank owned by a bank holding company merges into a target bank, in this instance, the State Savings Bank. Since the State Savings Bank was the surviving entity, the resulting merger required approval by the FDIC. The applicant stated that the transaction was structured this way to preserve certain grandfathered rights the State Savings Bank had. The Office accepted the proposal as an accommodation to the application after the applicant determined that the transaction could not be done as proposed in Massachusetts because the state was not able to grant a state interim charter. Additionally, the Office informed the applicant that the case would be reviewed to ensure that rights of dissenting shareholders of the State Savings Bank would be preserved in the structure of the transaction. The Office would not normally permit reverse triangular mergers of national banks because shareholders of the target bank are not afforded dissenters' rights. After review, it was determined the provisions for dissenting shareholders provided by Massachusetts corporation law were similar to those provided national banks in 12 U.S.C. 215A, and no legal impediments would preclude approval. Additionally, it was determined that dissenting shareholders of the State Savings Bank had the same rights regardless of whether the transaction was structured as a reverse or a forward merger. Generally, the Office does not permit reverse triangular merger proposals. However, approval of The Interim Bank in connection with a reverse triangular merger was granted in this instance because there was an apparently legitimate business purpose for the transaction; the transaction could not be accommodated under state law; dissenters were afforded protection under Massachusetts corporation law, which applies equally to a reverse or a forward merger; and the proposal was legal under all applicable national banking laws.

On September 23, 1988, a Texas bank in less than satisfactory condition was denied permission to issue subordinated debentures because the bank could not afford to carry the interest expense associated with such a proposal. As a part of the same application, however, the Office conditionally approved a request to exchange real estate for common stock. The approval was conditioned upon the submission of an independent appraisal of the real estate, since the independence of prior appraisals was questionable and the transaction involved a director/major shareholder. The property was located adjacent to the bank and used for employee parking. While the office acknowledged that the proposed injection was insufficient to return the bank's capital position to an acceptable level, it was also believed that shareholders should not be denied the opportunity to make legitimate contributions to equity capital, regardless of the amount.

Finally, below is a table of all cross-county branch applications filed with the Office as a result of the previously approved Deposit Guaranty decision:

State	Received	Approved	Denied
Alabama	1	0	0
Florida	12	9	0
Georgia	1	0	1
Indiana	1	0	0
Kansas	1	0	0
Kentucky	1	0	0
Louisiana	22	22	0
Mississippi	2	2	0
Missouri	2	0	0
New Mexico	2*	0	0
Oklahoma	3	0	0
Tennessee	19	19	0
Texas	6*	6	0
Wisconsin	2	0	0
TOTAL	75	58	1

*Includes a corporate reorganization

All Arkansas applications were withdrawn September 28, 1988 because of a change in state law prohibiting cross-county branching.

Speeches and Congressional Testimony

Statement of Robert L. Clarke, Comptroller of the Currency, before the Senate Committee on Banking, Housing and Urban Affairs, Washington, D.C., September 8, 1988

Introduction

Mr. Chairman and members of the Committee, I am here this morning to discuss Title IV of H.R. 5094, part of the banking reform legislation that the Committee on Banking, Finance, and Urban Affairs of the House of Representatives approved in July. The OCC has serious concerns about this portion of the bill, and we think it would be unwise and unwarranted to pass its provisions. The most troubling part of this bill is the linkage between Glass-Steagall reform and the Community Reinvestment Act (CRA). Among other things, it is likely to have the effect of changing the purpose of CRA from a law that seeks to balance community credit needs and safety and soundness concerns to one that attempts to allocate credit. It would also prescribe in unprecedented detail how bank regulatory agencies would enforce consumer laws, imposing a costly and inefficient system of administering those laws.

When you introduced financial reform legislation in November of last year, Mr. Chairman, you characterized the Glass-Steagall Act's restrictions on competition between investment banks and commercial banks as ". . . a protectionist dinosaur" and "[a] fossil held over from a bygone era" and concluded that "[t]he American economy and the American people deserve better." Under your leadership, this Committee, and subsequently the Senate, approved S. 1886, which would provide the basis for the modernization of the nation's financial services industry. It would permit needed competition between commercial and investment banks, and would likely result in an improvement in the selection, availability, and quality of financial products, including those products produced by the competitors of commercial banks. Moreover, it would provide, with administrative simplicity and directness, adequate protection to insulate bank deposits from most risks that may be associated with new activities.

Although Glass-Steagall repeal will not be a panacea for the banking industry's problems, we can ill-afford to delay this reform, particularly to pursue unrelated, albeit important, goals. As I testified before this Committee in May, even though earnings of national banks stabilized in 1987, declining profitability has been a persistent phenomenon during the 1980s. The return on assets for the median national bank was .79 percent in 1987, compared to the most recent peak of 1.11 percent in 1980. Permitting banks to compete in those markets from which they are now prohibited would create new income opportunities for banks and expand their opportunities for diversification. The survival of all banks will not be assured by Glass-Steagall repeal, but the successful competitors in the new market would make a stronger banking industry. The longer we wait to achieve Glass-Steagall repeal, the harder it will be for banks to compete to retain their share of the financial services market.

Unfortunately, H.R. 5094 would make it impossible to achieve the full benefits of Glass-Steagall reform, which this Committee has worked so long and hard to bring about. The proposed legislation is structured to limit the number of banks that could actually use new powers. It would do this by requiring a linkage between a bank's CRA rating and the approval of its holding company's applications to engage in permissible nonbanking activities. Under the proposed system, applications for permission to use the nonbank powers by bank holding companies with even average CRA ratings would be denied. These holding companies would not necessarily have failed to help meet community credit needs. They merely would not have done as much as some other bank holding companies on a relative scale.

Linking expanded powers and relative CRA ratings limits expanded powers to a specific group of banks. I believe that this effect would be as unnecessary as it is harmful. I share Congress' commitment to improved CRA performance: in the last 2 years, we have made important improvements in the OCC's performance of its responsibilities under CRA. Recognizing the need for improvement and the demands on our resources, we have revised our compliance examination program in a manner that we believe strikes the right balance between supervision for safety and soundness and for compliance. And, unlike H.R. 5094, our approach encourages compliance both by banks that are interested in new powers and by those that are not. We know from conversations with bankers that our revised program and our focus on compliance matters have attracted the attention of the industry. These changes will, as we planned, result in a much higher level of compliance. Bankers are aware that we are serious about compliance, and we believe this has motivated them to take their responsibilities more seriously.

In view of complaints by community groups and press reports on the inadequacies, in some areas, of local lending activity by depository institutions, perhaps further improvements in our methods of compliance supervision would be beneficial. However, no case has been made for the kinds of dramatic changes mandated by the pro-

posed legislation which would, among other things, force us to replace the reforms we have made even before the results of those reforms can be measured.

In the end, we must keep in mind that banks do not operate in protected markets that allow them to earn more than a competitive rate of return. If banks cannot make an adequate rate of return for investors, the investors will find other uses for their capital. Other providers of financial services are not subject to the same requirements and limitations on expansion of opportunities that are proposed in this legislation.

Now let me turn to my specific comments. Title IV contains six new regulatory provisions. Two of the provisions—Truth in Savings and Home Equity Loan requirements—have been examined in hearings in the House and are included in S. 1886. My statement today will focus on the major objections that I have with the provisions in Title IV that are new.

CRA Changes and Agency Reform

Summary of the Provisions

The first two subtitles of Title IV are designed to alter the implementation of CRA. Subtitle A would amend CRA and the Bank Holding Company Act in several important ways.

First, it would mandate a new, narrowly defined standard for evaluating the performance of depository institutions under CRA. The ratings would reflect CRA performance relative to banks with similar resources, ranging from excellent (1), through average (3), to poor (5).

Second, it would establish a strict "community benefits" requirement for depository institutions and holding companies seeking expansion or additional powers. Under the proposed legislation, the Federal Reserve Board would be unable to give final unrestricted approval to most bank holding company applications for an acquisition or to engage in nonbanking activities unless the holding company rating is at least a 2. Together with the proposed rating system, this requirement would mean that a bank holding company would have to be rated above average in order to engage in an acquisition or *de novo* expansion or to enter into permissible nonbanking activities. Similarly, acquisition of a bank by other than a bank holding company would be allowed only with a commitment to maintain or raise the bank's rating to a 2.

Third, Subtitle A would place many specific requirements concerning the administration of CRA on the federal regulatory agencies. The legislation would require the collection of performance data on five CRA assessment factors. The agencies would be required to publish notices of the commencement of CRA examinations in newspapers and prepare and mail without charge to anyone who requests it, a bulletin—updated weekly—listing all banks for which notice had been published that week. At the conclusion of each examination, agencies would be required to prepare a written evaluation of the institution's CRA record and to make public certain portions of the evaluation, including the rating and the performance data. The agencies would be required to work jointly to development and publish rating guidelines, and to review these guidelines annually.

Subtitle B would require the federal bank regulatory agencies to adopt a prescribed approach and organizational structure for handling consumer issues, including CRA. Each federal banking agency would be required to establish a separate "consumer division" meeting very specific criteria described in the legislation. The consumer division would: conduct a separate on-site consumer examination of each bank at least once every 24 months; be staffed by a cadre of specialist consumer examiners; be responsible for training, supervising, and developing career paths for consumer examiners; and respond to consumer complaints, enforce consumer and community reinvestment laws, and develop policies, regulations, and procedures concerning those laws.

The OCC's Position on CRA Changes and Agency Reform

With the passage of Subtitles A and B, Congress would mandate a solution to a problem that it has not clearly defined. The CRA amendment, the Bank Holding Company Act amendment, and the agency reform provisions of H.R. 5094 certainly would change lending practices, but that change would be achieved at a very high cost.

Let me put this into perspective. There are legitimate needs for increased lending and increased sensitivity to credit needs in some communities. The OCC believes that banks must serve these communities, not only because it is the law, but also because it is good business. We do not believe, however, that legislation that could, in effect, allocate credit is appropriate. If that occurs, safety and soundness considerations may become secondary.

In order to give you an idea of how the proposed changes would alter the assessment process, I would like to explain to you the steps involved in the CRA portion of a compliance examination. Currently, the fundamental premise of the OCC's Compliance Program is that compliance is the responsibility of bank management. Accordingly, the focus of supervisory activity is to ensure that the bank has taken this responsibility seriously and has the procedures and accountability necessary to ensure a high level of performance.

<u>Current Procedures for Assessing CRA Performance.</u> Today, national banks are rated for compliance with CRA under five performance categories, which apply to all national banks regardless of size.

1. The bank is evaluated on its performance in determining the credit needs of its community and in marketing its services.

2. Examiners review the types and amounts of loans made and credit extended and the degree to which they are helping to meet the community's credit needs.

3. Examiners look at the geographic distribution of the bank's real estate loans and any practices meant to discourage applications, as well as the impact of opening and closing offices and the impact of terminating or expanding services offered at those facilities.

4. The bank's compliance with anti-discrimination and other credit laws is evaluated.

5. Examiners assess the bank's participation in community development and other factors related to meeting local credit needs.

Under the current procedures, national banks are responsible for providing examiners with the data that demonstrate performance in each category. An absence of this evidence is an indication that the bank's efforts may be inadequate and certainly indicates that its procedures need to be more formalized.

Examiners assess CRA performance based on 12 factors, each of which, in turn, is related to one of the five performance categories. (A list of the 12 assessment factors with the corresponding examination procedures for those factors is appended to this statement.) In forming their conclusions regarding a bank's CRA performance, examiners rely on their expertise and judgment and assign a numerical score for each category. Those five scores are then used to form the bank's overall CRA rating. No formula exists for translating the ratings for each category into the overall rating. Rather, the summary rating reflects the examiner's best judgment of overall CRA performance.

Implications of H.R. 5094 for Assessment of CRA Performance. The requirement to collect for publication performance data, particularly in the 1,300 national banks with assets in excess of $100 million, would materially change the focus of our examiners. Contrary to the assertions in the staff summary of the House Banking Committee's bill, we do not believe that most banks, even those with assets over $100 million, maintain the required data on sophisticated computer systems.

To illustrate what would be involved, consider that in order to identify loans to small businesses located in the bank's delineated community examiners would have to obtain listings of loans from each lending department. A listing for each department would be necessary because a small business working capital loan would be issued from the commercial loan department, but a loan for a delivery truck, for example, might be carried in the installment loan department, and a loan to finance the business plant might be located in the real estate loan department.

Once the listings, which may or may not contain street address, are obtained, examiners would need to obtain the credit file for each loan listed in order to determine if the loan is to a small business and, possibly, its address. Examiners would then need to determine if the address is located in the delineated community. Only after all of the loans in the portfolio had been accounted for, could the examiners attempt to determine if particular neighborhoods had been arbitrarily excluded from the bank's lending area.

Our examiners currently use less precise, but not necessarily less effective, procedures. Initially, examiners review reports of previous examinations and working papers from other consumer-related programs conducted during the on-going compliance examination. Examples include programs to evaluate compliance with the Truth in Lending Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act. Typically the examiners will also analyze data compiled in accordance with the Home Mortgage Disclosure Act (HMDA), the OCC's Consumer Complaint Information System, and reports from our Consumer Examination Information System. Examiners also interview management and review internal files to determine the extent of lending in low- and moderate-income neighborhoods and the extent to which the bank may have failed to extend credit in those areas. Only in those cases where the examiners are not satisfied with the bank's performance in helping to meet local credit needs will a more technical analysis of specific loan data be undertaken.

Policy Concerns Created by H.R. 5094. In addition to the practical implementation problems discussed above, I see three other major problems presented by the new provisions. First, the proposed approach to assessment and enforcement would have the effect of changing the objectives of CRA from balancing competing goals to what amounts to legislative credit allocation. This change would result from the combined effects of the proposed CRA rating system, which would rank banks on a relative basis, the application of the "community benefits" test for acquisitions and expanded powers, and the publication of information on the CRA assessment.

Currently, the OCC uses the uniform interagency rating system for determining the CRA rating to be assigned to national banks. A rating is assigned to each national bank based on the institution's performance in helping

to meet community credit needs. Banks may be given CRA ratings ranging from 1 to 5. A rating of 3 is given to banks whose CRA performance is less than satisfactory, meaning that, in the judgment of the examiner, the bank is not adequately helping to meet the credit needs of the community; a 5 rating represents a substantially inadequate record of helping to meet community credit needs. Ratings are assigned independently of the performance of other banks, that is without regard to achieving any expected distribution of ratings, within the context of the market it serves.

The rating system proposed in the House bill would impose a distributional standard. A bank's rating would depend on the comparative performance of other banks in its size category. It is not clear exactly how the rating process would work in practice. However, given the very specific data requirements imposed by the proposed CRA amendment, and the public disclosure requirements, we believe it is reasonable to expect that these performance standards will actually evolve to quotas for certain types of loan activity.

Since the legislation ties new powers to ratings, the relative nature of the performance standard could undermine safety and soundness of banks. It would not be good enough, under the legislation, for banks to meet the current test of satisfactorily helping to meet the credit needs of their communities. They would, as measured against their competition, be required to receive higher performance ratings than banks that are part of other holding companies. This requirement would encourage banks to see who could make the most loans of certain types — an incentive that has had disastrous consequences in other contexts.

The reliance of the proposed rating system on relative performance and the requirement that ratings and evaluation factors be made public could also result in an unintended change in the objectives of CRA, due to the underlying pressure to quantify performance. Because the rating methodology would need to be publicly defensible, regulatory agencies might tend to rely on the more easily quantifiable assessment factors. Because not all of the indicators of CRA performance are readily quantifiable, some important indicators, such as marketing efforts or director participation in formulating policies, could be given too little weight in the assessment process.

I am also concerned about the provisions of the bill that would require public disclosure of CRA ratings. First, there might be public confusion over the ratings. If the CRA rating is misinterpreted as an indicator of the bank's health, confidence in the bank could be jeopardized. Second, an accurate assessment of a bank's CRA performance depends on a candid exchange between bankers and the examiners. Although we would hope that public disclosure would not diminish that candor, human nature being what it is, one has to believe that there will be some negative effect. Third, the threat of litigation, which would likely increase with public disclosure of ratings, could also threaten the thoroughness of examiners' evaluations. Finally, public disclosure could shift the focus of community groups' efforts from the bank's performance in helping to meet the community's credit needs to the numerical rating, and, consequently, the supervisory agency.

Another major concern with H.R. 5094 is that it would cause the OCC to use resources inefficiently. The provisions in Subtitles A and B would tell the banking agencies, in very fine detail, how to administer laws on consumer issues, resulting in a radical change from the current system, and mandate calendar-driven examinations of all banks. Clearly, if we exhaustively examined all banks on a regular schedule, we would catch most violators of the consumer banking laws, at least after the fact. But there is a better way — we do not have to use such an intensive application of our limited resources. Instead, the OCC relies on a combination of on-site activities and off-site evaluations of a bank's procedures and policies to assess bank compliance with consumer laws. Moreover, the bill's implications would encourage banks to request an updated CRA assessment, in anticipation of a corporate application. Currently, it would be impossible for us to meet those requests with our limited resources.

The heart of the OCC's approach to assessing the level of compliance with all laws and regulations, the Compliance Program, is the selection of a stratified random sample of national banks for an in-depth review of their compliance efforts and accomplishments. The uncertainty associated with being selected in the sample provides an incentive for compliance, without having to rely on regularly scheduled examinations, in the same way that the possibility of being audited by the IRS provides an incentive for compliance with the income tax laws. This process is described in detail in the report our Office submitted to this Committee in January of this year.

The final major policy concern is that the proposed reforms are based on an understatement of the cost burden to banks of CRA compliance. The proposed provisions try to dismiss concerns about cost and efficiency by shifting the burden of collecting compliance data to the banking agencies. That is simply unrealistic. In one way or another, banks will wind up paying the cost of increased compliance examinations. If the OCC does the work, we will ultimately charge banks for our time through assessments. It is clearly more efficient, and a better indication of bank management's commitment, for the banks to provide the data in support of their contention that they are helping to meet the credit needs of their community. Realistically, only the banks can provide the basic data

necessary to evaluate their performance. This is the approach that the OCC encourages.

A perverse result of the incentives created by a desire to obtain relatively high CRA ratings is that the burden of the proposed data requirements would be borne more heavily by the better CRA performers. Banks with better CRA records would have more incentive to cooperate with the examiners and do the necessary groundwork to make the data available. Banks with worse CRA records would not have such an incentive. The result would be more work for the examiners and higher costs for the banks.

Ironically, there is one important sense in which the banks and their supervisors will not bear the entire cost of the reforms. As a practical matter, the regulatory agencies will have to absorb some of the costs of the proposed agency reforms — the costs of diverting management resources to the reorganization of the agencies, of using existing resources to initiate staffing, and of implementing the new policies. The resources necessary to accomplish those tasks would have to be diverted from our safety and soundness responsibilities at one of the worst times possible, a time when record numbers of banks have failed and a large number of problem banks need supervisory attention.

A complete overhaul of our system of compliance supervision — as mandated by the proposed bill — would come at considerable sacrifice to effective and adequate safety and soundness supervision. In view of the success of our current approach to compliance supervision, we believe that this is a sacrifice that should not — and need not — be made.

We do not need to introduce into the banking system any destabilizing forces — especially when the public is concerned about the safety of parts of the financial services industry. Such a restructuring would impose on the public at large the costs associated with a more risky banking system, an unintended outcome that would clearly be inconsistent with the intentions of the House Banking Committee.

Notice of Branch Closure

H.R. 5094 would require that a national bank notify its customers and the OCC of a proposed closing of either a staffed branch or an ATM at least 90 days prior to the proposed closing date. If the OCC receives a valid complaint about the closing of a branch, the bank would be required to provide a detailed analysis of activity at the branch for the preceding 3 years, with a projection of the expected level of activity if the branch remained open. The OCC would be required to determine if the closure would result in a serious reduction in the availability of services. If such a determination is made, the OCC would have to look into the feasibility of replacing the branch with other facilities, including establishing a community development credit union. These provisions would not apply in the case of emergency acquisitions.

The OCC's Position On Prior Notification

The OCC believes that banks should notify the public of plans to close branches, and we currently encourage national banks to advise the community of their plans to close branches or to reduce services. Through issuance of Banking Circular No. 189, assistance to trade groups writing handbooks on such programs, and by other means, the OCC has fostered national banks' efforts to develop and implement policies to notify the community of their plans to reduce or eliminate services and to help the community secure alternative sources of services.

It is not appropriate, however, for the OCC — or any other governmental body — to substitute its judgment regarding the location of banking facilities for that of the owners and managers of a bank. Banks are private businesses, and decisions to locate offices must be made with an eye towards the profitability of a particular branch and the efficiency of the overall operations of the bank. Although H.R. 5094 would not require OCC approval of branch closures, I am concerned that its somewhat imprecise language would have the effect of putting us in the position of second guessing private, profit-motivated decisions.

Similarly, the provision of the bill that would require us to look into the feasibility of establishing alternative sources of services would inappropriately insert the OCC into actions that should be taken by the private sector, including the affected community. If some entrepreneurs believe that there are opportunities to serve profitably a market that has been abandoned by others, there are ample opportunities for them to act on that belief. Typically, markets that are underserved will attract new banking services either from *de novo* charters or branches of competitors. The initiatives of private entities in a community, including its citizens, community groups, and businesses — not of the government — are the best source of solutions to serving a community's needs for financial services. We believe that advance notification to customers and the affected community is sufficient to encourage such initiatives and would avoid imposing unnecessary administrative burdens on both the banks and the agencies.

I am also concerned that the branch closure provisions of H.R. 5094 apparently ignore the fact that banks' branching decisions reflect a more general restructuring of financial markets. As distinctions between formerly specialized financial institutions have eroded, banks and other providers of financial services have been forced to

reconsider the means they use to deliver the services. Those changes in large part stem from the innovative use of new technology in supplying financial services and from changing patterns of competition among financial financial firms. New technology has enabled financial institutions to develop alternatives to relying on expensive brick-and-mortar branches for the delivery of financial services. For example, ATMs now offer consumers access to their accounts around the clock and in a variety of locations. Thus, one cannot assume that a commercial bank's branches are the only efficient suppliers of financial services to local areas and that without branches, services will not be available.

Finally, limitations on branch closings, whether direct or indirect, make it harder to withdraw from a market, short of failing. Such measures are always counter-productive, making marginally profitable branches more risky ventures.

Basic Banking Services

H.R. 5094 would require banks to establish a "Basic Financial Services Account" for low- and moderate-income customers. This account would entail two separate services: a basic transaction service, and government check cashing services.

Depository institutions that ordinarily maintain checking accounts would be required to provide checking service to customers with $1,000 or less on deposit. The account could be opened and maintained with a balance of $25, and there would be at least 10 free transactions per month. Banks would not have to pay interest on the account. The institution could offer, although it could not require, direct deposit of recurring government payments. It also could not restrict the customer to using automatic teller machines. The Federal Reserve would be authorized to establish service charges for this account.

Depository institutions that cash checks in the ordinary course of business would be required to offer the Government Check Cashing Service for federal, state, and local government checks of up to $1,500. When registering, the customer would designate up to three branches where checks could be cashed. A $2 service fee would be allowed per check.

For each of these services, customers would be required to provide photo identification bearing their signature and other basic data. The provision of these services would be subject to Federal Reserve regulation, and the bill provides certain safeguards against fraud or continuing abuse and against the establishment of any prerequisite for opening the account that would discriminate against low- and moderate-income individuals or those without other account relationships.

OCC Position

Government should not mandate services that have to be offered, just as it should not create artificial barriers to the kinds of services firms can offer, as it has to date in the area of securities and insurance. In the long run, these requirements lower the level of services, and the consumer loses. More importantly, it is not clear that congressional action is needed to ensure that banking services are widely available. Many banks now offer a variety of low-cost, basic banking services. The OCC has encouraged them to do it. Much attention has been given to this need in communities. A 1987 study by the American Bankers Association shows that one of every two banks already offers basic banking services, including seven of every ten banks with over $1 billion in assets. In addition, the survey found that another 6 percent of all banks plan to start offering these services.

Conclusion

Mr. Chairman, I believe that the goals that could be attained by the repeal of the Glass-Steagall Act are of such importance that our attention should not be diverted from this task. We want the customer benefits provided by a more competitive financial services industry. Indeed, S. 1886 — by creating a more competitive financial services industry with respect to securities products — is a truly pro-consumer bill. I reiterate, however, with respect to the sale of insurance products, both the House and Senate bills are terribly anti-consumer and, in addition, discriminatory.

We need a healthy and efficient banking industry, and we need bank regulatory policies and structures that reduce inefficiencies in the market and reward efficient competitors while assuring safety and soundness. Community credit needs are important as well, but they are a separate matter. We must not limit our attainment of a modern banking system by linking it to the achievement of CRA objectives. We can meet both goals, but not under the structure that H.R. 5094 would provide.

H.R. 5094 would limit the number of banks that could utilize new powers, reducing the benefits of Glass-Steagall repeal. It would create new costs for all bank when such added costs make no sense. It would make banks regulators divert resources from the protection of safety and soundness. And it would change the objectives of CRA, increasing regulatory interference in private lending decisions in a way that would, we fear, undermine bank safety and soundness. For these reasons, I cannot support many of the provisions of Title IV of H.R. 5094.

Appendix

Assessment Factors & Examination Procedures

Twelve Assessment Factors	*Examination Procedures*
1) Bank activities that ascertain the credit needs of its local community.	Obtain information from a review of bank records and interviews with bank staff. (Studies/customers/ neighborhood groups/local government)
2) The extent of the bank's marketing and special credit-related programs to make community members aware of credit services available.	Review bank's marketing program. (RE brokers/mtg. counseling programs/advertising/convenient hours/brochures)
3) The extent of participation by the bank's board of directors in formulating CRA policies and in the bank's CRA performance.	Review minutes of board of directors meetings and any other bank documentation available. (Bank staff awareness of CRA)
4) Any practices intended to discourage applications for credit listed in the bank's CRA statement.	Review other fair lending examination programs (ECOA and Fair Housing Act). (Bank staff awareness of CRA/prescreening)
5) The geographic distribution of the bank's credit extensions, credit applications and credit denials.	Initially rely on discussion with other examiners, review of examination reports and working papers of other programs. Review bank files and interview bank management. Additional reliance may be placed on geocoding.
6) Evidence of discriminatory or other illegal credit packages.	Review prior reports of examination and other examination programs currently being performed.
7) The bank's record of opening and closing offices and providing services at offices.	Obtain information from the field or district office or from the bank's records. Review any public comments.
8) Bank participation in local community development and redevelopment projects or programs.	Review written lending policy and procedure manuals. Interview lending officers. (HUD's community development block grant program/local neighborhood preservation efforts/CDCs/neighborhood housing services)
9) The bank's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated within its community.	Review bank financial statements, HMDA disclosures, lending policy and procedure manuals. Interview bank staff.

Twelve Assessment Factors	*Examination Procedures*
10) Bank participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses or small farms.	Review bank financial statements, HMDA disclosures, lending policy and procedure manuals. Interview bank staff. (FHA/VA/FmHA mortgage loans/SBA loans/FHA Title I home improvement loans)
11) The bank's ability to meet community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors.	Review examination workpapers and reports. Consider safety and soundness. (Small banks may lack resources)
12) Other factors that bear upon the extent to which a national bank is helping to meet the credit needs of its entire community.	Consider factors such as bank purchases of state and municipal bonds, secondary mortgage market securities or whether the bank's policies promote efforts to assist exisiting residents in neighborhoods undergoing reinvestment and change.

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on Commerce, Consumer Protection, and Competitiveness of the Committee on Energy and Commerce, Washington, D.C., September 9, 1988

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to express my views on the insurance provisions contained in Title III of H.R. 5094, part of the banking legislation that the Committee on Banking, Finance, and Urban Affairs passed in July. In substance, those provisions are practically identical to the insurance provisions of the banking reform legislation, S. 1886, that the Senate approved earlier in the year.

When I testified before this Subcommittee on May 12 of this year, I stated why I believe so strongly that the barriers that separate banks and insurance should be substantially eliminated and that any barriers that remain should apply fairly and equally. Thus, I oppose the insurance provisions of S. 1886 that would create new barriers to competition and new competitive inequities. Those views apply equally to the insurance provisions of H.R. 5094

Opposition to bank entry into insurance is, at best, a misguided attempt to protect consumers from abuses, such as tie-in sales, that experience suggests are extremely unlikely to arise. At worst, it is an effort by one industry to protect its markets from entry by new competitors. In my statement this morning, I will first offer specific criticisms of the provisions of Title III of H.R. 5094 that I believe will be most harmful to consumers of insurance services. I will summarize several points I made in my earlier testimony to the Subcommittee and point out why neither consumer protection nor bank safety and soundness requires the prohibition of commercial banks from the insurance business. I will conclude this statement with some suggestions regarding the approach I think Congress should take in addressing the issues surrounding the combination of commercial banking and insurance.

Critique of Provisions of Title III of H.R. 5094

The insurance provisions of H.R. 5094 represent a step away from, not toward, greater competition in the markets for insurance products. Thus, they are anti-consumer. They would deprive consumers of the benefits that would result from greater competition in the market for insurance, and they would weaken the ability of banks to remain active competitors in the market for financial services. In fact, H.R. 5094 would impose restrictions on insurance activities that are currently permitted for banks — activities that we know pose no significant risks to banks. Further, it would arbitrarily create inequitable treatment among state banks, depending upon the location of their parent, and between state banks and national banks that compete in the same markets.

First, under H.R. 5094 state-authorized new insurance activities conducted by any state bank owned by a bank holding company would have to stop at the borders of

the state in which it operates. Currently, state banks may offer insurance products beyond the borders of their home state if the laws of that state so permit. Moreover, H.R. 5094 would specifically prohibit any state bank from underwriting insurance, even when state law so permits.

Second, H.R. 5094 would discriminate among state-chartered banks for reasons that are completely unrelated to concerns about possible failure of the free market, such as undue risk or the potential to exercise market power. It would allow state banks owned by individuals or by a bank holding company headquartered in the same state to offer insurance products authorized under state law. It would prohibit state banks that are affiliated with a holding company headquartered out of state from offering the same insurance products.

Finally, the most objectionable aspect to this bill is that for the first time in federal law there would be an outright prohibition on national banks performing some insurance activities. H.R. 5094 would, with two limited exceptions, restrict national bank insurance authority to the sale and underwriting of credit life, credit disability, and involuntary unemployment insurance on loans. Thus, a number of insurance activities that the OCC has determined to be permissible for national banks because they are incidental to the business of banking would be prohibited — acting as agent for the sale of title insurance, for example. Since 1863, the OCC has had, under the National Bank Act, authority to determine which activities are incidental to the business of banking. I believe that such a limitation would set an undesirable precedent by hindering opportunities we now have to further the public interest.

How the approach embodied in this legislation would achieve any appropriate public-policy goal escapes me. Surely, it does not make sense, as a matter of federal policy, to limit entry into insurance markets. Nor does it make sense for Congress to enact legislation that would reduce the value of a national bank charter. By placing national banks at a clear competitive disadvantage with respect to state banks, however, Title III of H.R. 5094 would do just that. I find the rationale for these provisions all the more incredible because states for years have authorized banks to conduct insurance activities and Congress has not seen until now a need to limit that authorization in any way. What possible good could come from the restrictions contained in the proposed legislation?

Restrictions on Banks and Insurance Are Misguided

Proponents of restrictions on the insurance activities of banks typically make two arguments: first, that consumers would be harmed if banks were permitted to offer insurance services, and, second, that allowing banks to more actively enter the insurance business would increase the risk of bank failure and thereby threaten the safety and soundness of the banking system. Neither argument is valid.

In direct contrast to the assertions that consumers could be harmed by enabling banks to compete actively in insurance markets, many consumer advocates believe that bank entry into insurance markets would yield substantial public gains. Last February, a coalition of 24 consumer groups asked the Senate Banking Committee, unsuccessfully, not to limit the insurance activities of state-bank subsidiaries of bank holding companies. A year before that, the Consumer Federation of America noted in a study that "Surveys of the policyowner cost for life insurance have repeatedly shown that savings bank life insurance is lower in cost [than life insurance sold by insurance companies] in those states where it is allowed to be sold." In summarizing a portion of its study, the Federation concluded that "The econometric study of life insurance costs not only corroborates these findings, but also indicates that competition from banks could lower costs industry-wide."

Despite such findings, insurance industry representatives continue to argue that combining banking and insurance would harm consumers. They theorize that banks might force consumers into accepting unwanted products through tie-in arrangements and that bank-affiliated insurance firms will have a special advantage in raising funds, to the detriment of other competitors.

Neither argument is persuasive. First of all, we have seen no evidence of tie-in arrangements in those states that allow banks to sell insurance. In 1984, an outside consultant conducted a study of that issue for the OCC by interviewing insurance agents in two states where banks have been agents for many years. No complaints about tie-in sales of insurance or coercion were uncovered. One obvious reason no complaints were found is that tie-in sales are illegal. Existing law amply protects consumers from such abuses. For many years the Sherman Act, in general terms, has prohibited the use in commerce of anticompetitive tie-ins. The application of that principle to banks was underscored by the 1970 amendments to the Bank Holding Company Act, 12 U.S.C. 1972-1975.

The second argument is based on an assertion that combining banking and insurance raises the prospect of giant financial conglomerates collectively or individually controlling access to all insurance markets. That expression of concern ignores the fact that attempts at collusion, as well as mergers and acquisitions, are subject to the antitrust laws, such as the Sherman Act and the Clayton Act.

Concern has also been expressed that banks could engage in unfair competitive practices to drive their nonbank competitors from the marketplace, thereby ultimately

harming consumers. Opponents of bank entry into insurance markets suggest that could occur because banks would give favored treatment on loans to the customers of their insurance affiliates.

Once again, there is no evidence of preferential treatment for borrowers where banks are permitted to sell insurance. There are also safeguards against such practices. Loans to customers of affiliates are covered by the long-standing statutory limits on the amount of credit banks may extend to a single borrower, such as those applicable to national banks found in 12 U.S.C. 84. Additionally, section 23B of the Federal Reserve Act, enacted last year, prohibits a bank from offering credit on preferential terms to third parties in connection with transactions involving an affiliate. Bank loans to insiders for insurance and other purchases are tightly governed by 12 U.S.C. 375a and 375b. Moreover, compliance with section 23A of the Federal Reserve Act dictates that the more a bank lends to the customers of an affiliate, for the benefit of that affiliate, the less it can lend directly to that affiliate. Generally, such loans cannot be on terms more favorable than those accorded other borrowers.

Concerns that conducting insurance activities will threaten bank safety and soundness are similarly misguided. The limited insurance activities now permitted national banks do not pose safety and soundness concerns, and, in fact, provide banks with a more diversified income source, which can enhance bank safety and soundness. State banks in the 24 states that permit them to engage in insurance activities benefit from opportunities to diversify.

Moreoever, a recent study published in the Spring 1988 edition of the Federal Reserve Bank of Minnesota's *Quarterly Review* provides evidence that insurance activities may even reduce the risk of banking. The article's authors estimated, using stock price return data, that the life insurance industry is less risky than banking and concluded that combinations of banking and life insurance would be less risky than either industry individually.

Perhaps the most telling argument that combining banking and insurance poses no danger to consumers or to bank safety is that there are at present a number of nonbanking firms, including GM, USAA, Sears, J.C. Penney, Aetna, John Hancock, Travelers, and Marsh & McLennan that offer both insurance products and banking products. There is no evidence that consumers have suffered because those firms offer insurance and banking products — indeed, consumers have benefitted. Nor is there evidence of any significant safety and soundness concerns.

H.R. 5094 and S. 1886 Are Misdirected

Given the clear public benefits of granting all banks the authority to offer insurance products, we need a new federal policy on combining banking and insurance, a policy that moves forward instead of backward. I favor an approach under which all banks would be able to offer a full range of insurance products. At a minimum, national banks should be able to exercise the same insurance powers that their state-bank competitors are permitted to exercise.

With proper safeguards, banking organizations would be able to conduct safely the full range of insurance activities. Bank departments, for example, should be permitted to act as insurance agents or brokers. Those activities pose little, if any, risk to the bank, because agents and brokers have little, if any, of their own capital at risk. Agency and brokerage powers would prove particularly beneficial to smaller banks because of their retail orientation. Permitting those activities to be conducted directly by banks would offer banks a low-cost way to enter the market.

It may be appropriate to require that some insurance underwriting only be conducted in a separate affiliate because it may involve greater risks than agency or brokerage activities. However, I do not think we should impose any more organizational costs than are absolutely necessary to satisfy legitimate concerns about bank safety and soundness. Frequently, establishing an insulated bank subsidiary will prove less costly than setting up a holding company affiliate. As long as bank capital is insulated, bank managers should be free to choose the organizational structure they desire.

For many banks, the decision to offer insurance products will turn on how much flexibility they have in organizing their insurance activities. Clearly, many of the 10,500 banks with assets under $100 million would benefit from new insurance powers, and more than 3,700 of those banks are not part of a bank holding company. It would make little sense to force those that are not affiliated with holding companies to bear the expense of forming a bank holding company and dealing with another federal regulator simply to conduct an activity that can be done safely in the bank or in an insulated bank subsidiary.

Let me briefly describe the protections that would be available. Sections 23A and 23B of the Federal Reserve Act would limit transactions between a bank and its insurance affiliate. Similarly, an insulated bank subsidiary or holding company affiliate would be subject to all the restrictions on bank-affiliate transactions and product tie-ins found in the banking and other laws, including sections 23A and 23B of the Federal Reserve Act and in certain sections of the Bank Holding Company Act.

Additional insulation would be provided by bank capital adequacy considerations. In particular, regulatory de-

terminations of bank capital adequacy would consider the bank's investment in the subsidiary to be separate from the bank's regulatory capital. The practical effect of that policy would be to ensure that any problems that the insurance might encounter would not deplete the bank's capital below regulatory requirements.

My proposal would not alter the primacy of states in regulating or supervising insurance activities. New agency activities by national banks would be treated in the same manner as are those that are currently permitted. New underwriting activities would take place in separately incorporated affiliates of banks and would be subject to the same rules, regulations, and supervisory authorities that apply to unaffiliated insurance firms.

Conclusion

Mr. Chairman and members of the Subcommittee, as I noted when I appeared before you in May, the debate over insurance powers for banking organizations is in reality a power struggle between the insurance industry and the public interest. Each of those contending parties knows that bank entry into insurance markets now closed to them promises lower-cost insurance products. Commercial banking organizations with their brick-and-mortar office networks can be efficient providers of insurance services to consumers.

Commercial banking organizations and their supervisors know that continued refusal to allow banks new insurance powers, let alone new restrictions on currently permitted activities, cannot be defended on the grounds of bank safety and soundness. Many insurance activities are virtually riskless. Commercial banks can be effectively insulated from those that are not.

Finally, prohibiting banks from offering new insurance products cannot be defended on the grounds of possible public harm. There is no evidence to support a charge that harm has resulted from the exercise of insurance powers now available to banks. As we have seen, federal statutes and the more powerful discipline of the marketplace all but preclude it. Expanding bank insurance activities will not diminish the strength of either protection.

Clearly, a new federal policy expanding the insurance powers of banks is needed. Unfortunately, Title III of H.R. 5094 and the similar insurance provisions of S. 1886 move entirely in the wrong direction. They do absolutely nothing to serve the public interest.

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on Monopolies and Commercial Law of the Committee on the Judiciary, Washington, D.C., September 14, 1988

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to express my views on several aspects of H.R. 5094, the legislation that the Committee on Banking, Finance, and Urban Affairs reported out in July. Although the legislation would take a step toward achieving the goal of modernizing the financial services industry, it would impose several new restrictions that would not help meet that objective. Thus, I have expressed some reservations about H.R. 5094. Last week, for example, in testimony before the Senate Committee on Banking, Housing, and Urban Affairs, I noted my opposition to some of the consumer-related provisions contained in Title IV that have the potential to weaken the safety and soundness of the banking system. I also voiced my objections to the insurance provisions of the bill before the Subcommittee on Commerce, Consumer Protection and Competitiveness of the Committee on Energy and Commerce last week.

Today, I will first address the bill's restrictions on mergers of large banking organizations and large securities firms. In testimony last December before the Senate Committee on Banking, Housing, and Urban Affairs, I explained why I oppose a flat statutory preclusion of mergers without a case-by-case determination that they would pose concerns about market power. I will summarize those views here.

Second, I will address the new restrictions that the bill would place on competition between banks and insurance firms and, in particular, its barring of national banks from most insurance activities, including some that they now conduct safely and soundly. The bulk of my statement will focus on those anti-competitive, anti-consumer provisions of H.R. 5094.

Restrictions on Combinations of Large Firms

H.R. 5094 would impose restrictions on affiliations of large banking organizations and large securities firms. A bank holding company (or bank) that is among the largest 15 banking organizations in the United States, as measured by total consolidated assets, or that has total worldwide consolidated assets of more than $30 billion, would not be

permitted to affiliate with a securities firm that is among the 15 largest in the United States. Similarly, a securities firm with total consolidated worldwide assets of more than $15 billion would not be permitted to affiliate with a banking organization that is among the 15 largest in the United States.

Concentrations of financial resources that would shut off the availability of credit to certain sectors of the economy should be of concern to us all. However, the imposition of an arbitrary prohibition on certain mergers is not, in my judgment, an appropriate response to that concern.

The best protection against the danger that a few firms could control a market is the presence of healthy competitors. Certainly, there is vigorous competition in the markets for the products and services that commercial banks offer. That competition is provided by the 13,000 commercial banks, 3,000 thrift institutions, 15,000 federally insured credit unions, and the myriad of securities firms, insurance companies, retailers, and other companies that offer products similar to those offered by commercial banks. Both the OCC and state authorities can maintain such healthy rivalries through bank chartering and supervisory policies that encourage competition. Thus, in view of that competition, the limitation proposed in H.R. 5094 is not necessary to maintain competition in commercial banking markets.

Moreover, the arbitrary size limitations that would be imposed by H.R. 5094 could have adverse consequences. The prohibition could unnecessarily impede the sale — in whole or in part — of a large investment banking firm. Any large financial services company — either a bank or a securities firm — will, by virtue of its size, have a limited number of potential buyers. I do not think that it would make sense to eliminate a substantial number of potential buyers through arbitrary size limitations. In fact, the legislation may inadvertently frustrate anti-trust goals. For instance, a large securities firm could not be sold to a large bank, thereby making it more likely that it would be sold to a direct competitor — another securities firm. The only beneficiaries of a law precluding large mergers without an analysis of anti-trust issues would be foreign banks, which would not be subject to the restrictions.

Arbitrary dollar limits on mergers should be abandoned in favor of vigorous enforcement of existing anti-trust laws. Those laws and their enforcement will be adequate to protect against unlawful anti-competitive or collusive practices. They also provide the flexibility needed to adapt to continually changing market conditions.

Critique of Provisions of Title III of H.R. 5094

The second set of concerns I would like to discuss are those related to the insurance provisions of H.R. 5094. Title III of H.R. 5094 represents a step away from, not toward, greater competition in the markets for insurance products. Thus, it is anti-consumer. It would deprive consumers of the benefits that would result from greater competition in the market for insurance and would make it more difficult for banks to remain active competitors in the market for financial services. In fact, H.R. 5094 would impose restrictions on insurance activities that currently are permitted for banks — activities that we know pose no undue risks to banks. Further, it would create inequitable and anti-competitive regulatory treatment among state banks, depending upon the location of their parent, and between state banks and national banks that compete in the same markets.

First, under H.R. 5094, state-authorized, new insurance activities conducted by any state bank owned by a bank holding company would have to stop at the borders of the state in which it operates. Currently, state banks may offer insurance products beyond the borders of their home state if the laws of that state so permit. Moreoever, H.R. 5094 would specifically prohibit any state bank from underwriting insurance, even when state law would allow it.

Second, H.R. 5094 would discriminate among state-chartered banks for reasons that are completely unrelated to concerns about possible failure of the free market, such as undue risk or the potential to abuse market power. It would let state banks owned by individuals or by a bank holding company headquartered in the same state offer insurance products authorized under state law. It would prohibit state banks that are affiliated with a holding company headquartered out of state from offering the same insurance products.

Finally, the most objectionable aspect of Title III is that for the first time in federal statutory law there would be an outright prohibition on national banks performing most insurance activities.

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Proponents of restrictions on the insurance activities of banks typically make two arguments: first, that consumers would be harmed if banks were permitted to offer insurance services, and, second, that allowing banks to more actively enter the insurance business would increase the risk of bank failure and thereby threaten the safety and soundness of the banking system. Neither argument is valid.

In direct contrast to the assertions that consumers could be harmed by enabling banks to compete actively in insurance markets, many consumer advocates believe

that bank entry into insurance markets would yield substantial public gains. Last February, a coalition of 24 consumer groups asked the Senate Banking Committee, unsuccessfully, not to limit the insurance activities of state-bank subsidiaries of bank holding companies. A year before that, the Consumer Federation of America noted in a study that, "Surveys of the policyowner cost for life insurance have repeatedly shown that savings bank life insurance is lower in cost [than life insurance sold by insurance companies] in those states where it is allowed to be sold." In summarizing a portion of its study, the Federation concluded that, "The econometric study of life insurance costs not only corroborates these findings, but also indicates that competition from banks could lower costs industry-wide."

Despite such findings, insurance industry representatives continue to argue that combining banking and insurance would harm consumers. They theorize that banks might force consumers into accepting unwanted products through tie-in arrangements and that bank-affiliated insurance firms will have a special advantage in raising funds, to the detriment of other competitors.

Neither argument is persuasive. First of all, I am not aware of any widespread problems involving tie-in arrangements in those states that allow banks to sell insurance. For example, in 1984, an outside consultant conducted a study of that issue for the OCC by interviewing insurance agents in two states where banks have been agents for many years. No complaints about tie-in sales of insurance or coercion were found. One obvious reason no complaints were found is that tie-in sales are illegal. And if a bank does violate the law, we will take appropriate action against it. Existing law amply protects consumers from such abuses. For many years the Sherman Act, in general terms, has prohibited the use in commerce of anti-competitive tie-ins. The application of that principle to banks was underscored by the 1970 amendments to the Bank Holding Company Act, 12 U.S.C. 1972-1975.

The second argument is based on an assertion that combining banking and insurance raises the prospect of giant financial conglomerates collectively or individually controlling access to all insurance markets. That expression of concern ignores the fact that attempts at collusion, as well as mergers and acquisitions, are subject to the anti-trust laws, such as the Sherman Act and the Clayton Act.

Some argue, for instance, that banks could engage in unfair competitive practices to drive their nonbank competitors from the marketplace, thereby ultimately harming consumers. Opponents of bank entry into insurance markets suggest that could occur because banks would give favored treatment on loans to the customers of their insurance affiliates.

Once again, I have not seen evidence of preferential treatment for borrowers where banks are permitted to sell insurance. There are safeguards against such practices. Loans to customers of affiliates are covered by the long-standing statutory limits on the amount of credit banks may extend to a single borrowers, such as those applicable to national banks found in 12 U.S.C. 84. Additionally, section 23B of the Federal Reserve Act, enacted last year, prohibits a bank from offering credit on preferential terms to third parties in connection with transactions involving an affiliate. Bank loans to insiders for insurance and other purchases are tightly governed by 12 U.S.C. 375a and 375b. Moreover, compliance with section 23A of the Federal Reserve Act dictates that the more a bank lends to the customers of an affiliate, for the benefit of that affiliate, the less it can lend directly to that affiliate. Generally, such loans cannot be on terms more favorable than those accorded other borrowers.

Concerns that conducting insurance activities will threaten bank safety and soundness are similarly misguided. The limited insurance activities now permitted national banks do not pose safety and soundness concerns, and, in fact, provide banks with a more diversified income source, which can enhance bank safety and soundness. State banks in the 24 states that permit them to engage in insurance activities benefit from opportunities to diversify.

Moreover, a recent study published in the Spring 1988 edition of the Federal Reserve Bank of Minnesota's *Quarterly Review* provides evidence that insurance activities may even reduce the risk of banking. The article's authors estimated, using stock price return data, that the life insurance industry is less risky than banking and concluded that combinations of banking and life insurance would be less risky than either industry individually.

Perhaps the most telling argument that combining banking and insurance poses little danger to consumers or to bank safety is that there are at present a number of nonbanking firms, including GM, USAA, Sears, J.C. Penney, Aetna, John Hancock, Travelers, and Marsh & McLennan that offer both insurance products and banking products. We do not know of any evidence that consumers have suffered because those firms offer insurance and banking products — indeed, consumers have benefitted. Nor are we aware of any significant safety and soundness concerns arising from the ownership of banks by insurance companies.

Banking and Insurance Can Be Safely Combined

Given the clear public benefits of granting all banks the authority to offer insurance products, we need a new federal policy on combining banking and insurance, a policy

that moves forward instead of backward. I favor an approach under which all banks would be able to offer a full range of insurance products. At a minimum, national banks should be able to exercise the same insurance powers that their state-bank competitors are permitted to exercise.

With proper safeguards, banking organizations would be able to offer safely the full range of financial services. I have outlined, in a number of appearances before Congressional committees, how that could be done. (See, for example, my testimony of October 28, 1987, before the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance and my December 3, 1987, testimony to the Senate Committee on Banking, Housing, and Urban Affairs.) Many activities can be conducted safely in bank departments. Activities that may involve greater risks can be insulated from the core banking functions by conducting them in a separately incorporated affiliate.

Bank departments, for example, should be permitted to act as insurance agents or brokers. Those activities are likely to pose little risk to the bank, because agents and brokers have little, if any, of their own capital at risk. Agency and brokerage powers would prove particularly beneficial to smaller banks because of their retail orientation. Permitting those activities to be conducted directly by banks would offer banks a low-cost way to enter the market.

It may be appropriate to require that some insurance underwriting only be conducted in a separate affiliate because underwriting potentially involves greater risks than agency or brokerage activities. Such affiliates would be separately organized and capitalized. As bank supervisors, we would protect bank safety and soundness by insulating the bank from the subsidiary to ensure that any problems that the affiliate may experience do not spill over and weaken the bank. Thus, we would not allow a bank to provide funds to a failing insurance subsidiary if doing so would reduce the bank's capital below our minimum standards.

Although requiring banks to conduct their insurance activities from a separate affiliate is an effective way to protect the bank from risk, we must be careful to avoid imposing any more organizational costs than are absolutely necessary to satisfy legitimate concerns about bank safety and soundness. Establishing an insulated subsidiary of the bank will almost always prove less costly than setting up a holding company to manage the bank and insurance affiliate separately. As long as bank capital is insulated, bank managers should be free to choose the organizational structure they desire. For many banks, the decision to offer insurance products will turn on how much flexibility they have in organizing their insurance activities. Clearly, many of the 10,500 banks with assets under $100 million would benefit from new insurance powers, and more than 3,700 of those banks are not part of a bank holding company. It would make little sense to force those that are not affiliated with holding companies to bear the expense of forming a bank holding company and dealing with another federal regulator simply to conduct an activity that can be done safely in the bank or in an insulated bank subsidiary.

Let me briefly describe the protections that would be available. Sections 23A and 23B of the Federal Reserve Act would limit transactions between a bank and its insurance affiliate. Similarly, an insulated bank subsidiary or holding company affiliate would be subject to all the restrictions on bank-affiliate transactions and product tie-ins found in the banking and other laws, including sections 23A and 23B of the Federal Reserve Act and in certain sections of the Bank Holding Company Act.

Additional insulation would be provided by bank capital adequacy requirements. In particular, regulatory determinations of bank capital adequacy would consider the bank's investment in the subsidiary to be separate from the bank's regulatory capital. The practical effect of that policy would be to ensure that any problems that the insurance affiliate might encounter would not deplete the bank's capital below regulatory requirements.

My proposal would not alter the primacy of states in regulating or supervising insurance activities. New agency activities by national banks would be treated in the same manner as are those that are currently permitted. New underwriting activities would take place in separately incorporated affiliates of banks and would be subject to the same rules, regulations, and supervisory authorities that apply to unaffiliated insurance firms.

Conclusion

Mr. Chairman and members of the Subcommittee, all consumers of financial services will benefit if Congress eliminates the antiquated statutory restrictions on the ability of providers of financial services to compete on more equal terms, but H.R. 5094 falls short in several important areas. For example, rigid size restrictions on mergers of commercial banking organizations and securities firms are unnecessary. Competition, accompanied by vigorous enforcement of anti-trust laws, will be sufficient to guard against abuses of market power.

Second, progress towards greater competition between banks and securities firms should not come at the cost of increased restrictions on competition in the market for insurance. The debate over insurance powers for banking organizations is in reality a power struggle between the insurance industry and the public interest. Each of

those contending parties knows that bank entry into insurance markets now closed to them promises lower-cost insurance products. Commercial banking organizations with their brick-and-mortar office networks can be efficient providers of insurance services to consumers.

Commercial banking organizations and their supervisors know that continued refusal to allow banks new insurance powers, let alone new restrictions on currently permitted activities, cannot be defended on the grounds of bank safety and soundness. Many insurance activities are virtually riskless. Commercial banks can be effectively insulated from those that are not.

Prohibiting banks from offering new insurance products cannot be defended on the grounds of possible public harm. We do not believe the insurance firms that own banks have harmed consumers, and we do not think any different result would occur if banks were more free to enter the insurance business. As we have seen, federal statutes and the more powerful discipline of the marketplace all but preclude it. Expanding bank insurance activities will not diminish the strength of either protection.

Clearly, H.R. 5094 takes some important steps toward allowing banks to compete in a modern financial services market. But more must be done. Provisions that unduly restrict banks' insurance activities, that would make it more difficult to sell large banks or large securities firms, and that may have the effect of allocating credit, could well offset what would be gained through Glass-Steagall reform. That would not serve the public interest.

Remarks by Edwin H. Clock, Deputy Comptroller of the Currency, before the Institute for International Research, Inc., New York, New York, September 14, 1988

Not too long ago a finance minister from a developing country visited the head of a multinational bank here in New York. The finance minister entered the banker's office and stated that he had some good news and some bad news. The banker said: "Well, let's hear the bad new first." The finance minister said: "My friend, remember the mining complex you financed in the northern province of my country?" The banker said: "Yes." "Well," said the minister, "we had a flood there a few days ago and the complex is closed for the foreseeable future. And remember the oil field you financed in the south?" The banker said: "Yes." "Well," said the finance minister, "a massive fire there last week has closed down production. And the new airport at the capital you financed. . .?" The banker said: "Yes." The minister said: "An earthquake yesterday destroyed the runway, so the new national airline you financed for us. . .?" The banker said: "Yes." The finance minister said: "It is yours." There was a moment of silence. Finally, the banker said: "Well, what's the good news?" The finance minister replied: "My government has reviewed the situation and wishes to maintain our banking relationship with you."

Given the interdependence of the global economy today, can the effects of any event — any situation — be of importance to only one country?

At first glance, the Glass-Steagall Act — the 55-year old U.S. law aimed at separating commercial and investment banking — appears to be a matter of purely domestic concern. After all, if Americans want to continue to hobble their domestic financial system with archaic legislation that requires two types of institutions to perform a function — finance — that can be, and was for many years in the U.S., and is among our international trading partners handled by one, who — outside the two industries involved — should care?

What difference does it make? When it comes to the legal and political niceties of banking, the U.S. has always been eccentric — too long fearing the mysteries of money, too long in discovering the importance of structural efficiency in promoting economic vitality.

While the Bank of England was beginning the process of financial concentration that would later fuel the Industrial Revolution — at home and on the Continent and, ironically, in the United States — Americans were bickering over whether our national government had any role to play in creating and fostering a banking system at all. Indeed, it wasn't until the City of London was financing global trade in the middle of the last century that the national government of the United States finally decided — once and for all — that banking was a legitimate field in which it should take an interest. It took a life- and-death struggle — the American Civil War — to drive the political policy makers to that decision.

The federal government of the U.S. discovered then that it needed a strong domestic banking system to buy

government bonds to finance its military efforts. And it created the Office of the Comptroller of the Currency to bring this strong banking system into being. Had it not been for an insurrection, a federal banking policy might never have been erected.

The U.S. did not have a central bank until 1913. It took only two devastating economic crashes to drive the political policymakers into seeing the need for one. And the United States did not have a single commercial banking entity that could practically and routinely provide commercial loans anywhere in the country until this generation. The political establishment feared the creation of such an economic behemoth. Surely, the thinking went, financial totalitarianism would follow the centralization of economic resources in such an institution — willy-nilly.

U.S. banking history is filled with illustrations of this paranoia. For example, a national bank in Chicago had to seek special Congressional approval in 1892 to open a branch on the World's Fair Grounds in that city, and a group of Missouri banks had to go to Congress in 1904 for special permission to locate branches on the Louisiana Purchase Exposition ground in St. Louis. In both cases, approval was granted — but the branches in each instance were limited to a period of 2 years.

Given these conditions, the history of U.S. banking law is — to a great extent — a history of political illusion and political necessity. And, given that history, it is not surprising that Congress in 1933 decided to divide finance into two components — commercial and investment banking. In the political climate of the time, it made sense politically — a point I'll return to in a few moments. And it is equally not surprising that — 55 years later — Congress is trying to erase that division. In the political climate of our time, it makes sense. But only to some people. And maybe not enough to make a difference. Allow me to explain.

As we all know, over the last 15 years international competition has been one of the major forces prompting the U.S. financial system to change as much as it had changed over the previous century. Geographic barriers have fallen. Distinctions between banks and other financial institutions have eroded. Interest rates have been decontrolled, and dozens of new forms of savings and lending have been developed.

And — as we all know — in the postwar period a global capital market has arisen, in part as a result of new technological developments that make it awesomely easy to move money and information around. We would not be here today at this conference if that were not the case. However, the new technologies could create a global capital market only because political forces encouraged that result.

In the last forty years, political leaders of all the Western nations have been generally committed to fostering international markets. It is important to remember, however, that this global capital market — and, indeed, the international economy — is an abstractions. The global capital market is not an entity separate from domestic capital markets. Rather, it is the sum total — or rather, the net total — of all the domestic capital markets that make it up.

When we look at the legal policies of the other countries that participate in the global capital market regarding financial structure, we find a sharp contrast to policies in the United States.

A brief overview of those policies shows just how sharp that contrast is. Let's first look at Europe, starting with Germany. Since the beginning of the modern system of corporate enterprise and banking in the 19th century, German banks have engaged not only in commercial and deposit banking activities but also in investment banking and brokerage activities. This system of entrusting a single legal entity with both commercial banking and securities activities is known as the universal banking system. German banks also engage in insurance and real estate investment activities through affiliates and own shares in industrial and commercial companies.

Although the universal banking system in Germany has been periodically re-examined by scholars, the government, and the legislature, the authorities have not concluded that significant changes to the German banking system are warranted.

Switzerland has enjoyed a long and successful experience with a universal banking system that has remained virtually unchanged since 1934. Under this system, Swiss banks engage in a full range of commercial and investment banking activities.

The Netherlands has a universal banking system in which banks engage in all securities activities. Dutch banks also engage in real estate and some insurance activities.

French banks historically have been able to engage in broad securities activities, but until 4 years ago, were divided into several categories in which banking powers were compartmentalized. More recent legislative changes have removed several restrictions that remained with the result that France now has a truly universal banking system. French banks are also permitted to make investments in industrial firms and to engage in real estate and insurance activities without restriction.

The United Kingdom's banking laws generally impose no restrictions on the activities in which banks may engage or the investments they may make. Culminating in the October 27, 1986, "Big Bang," the UK has over the

years made significant changes in the regulatory framework of its financial system to respond to developments in the global financial markets. As a result of these changes, the UK has effectively moved toward a universal banking system similar to that practiced in other European countries.

Italian regulation has historically allowed all banks to engage in securities activities, including underwriting corporate debt and equity securities and sponsoring mutual funds. Italy recently authorized banks to establish merchant banking firms, which have underwriting powers and authority to hold non-permanent direct equity investments.

Turning to two Asian international financial centers we find that Hong Kong has well developed banking and securities markets wherein both foreign and domestic banks have long been permitted to engage in unlimited securities activities, as well as insurance, real estate and other financial activies.

Japan, on the other hand, has its own version of the Glass-Steagall Act: Article 65 of the Securities and Exchange Law. In addition, Japanese banks are separated into specialized categories. In recent years, however, the banking system in Japan has evolved to take into account the internationalization of financial markets. The Japanese Ministry of Finance has expanded the activities in which banks may engage, including securities activities. We can expect reform in Japan to continue.

Closer to home, over the last year and a half Canada has joined the movement toward freer financial markets — removing restrictions on the affiliation of banks and securities firms — with other significant changes soon expected.

Furthermore, as we all know, structural reform in Europe will soon leap national borders. The European Economic Community is scheduled to implement a common banking system by means of a European banking license by 1992. This single European banking license would authorize a bank to engage in a broad range of financial activities through branches in the EEC subject to regulation and supervision only by authorities in the bank's "home" member State. Included in the list of permissible activities would be unlimited securities powers. In effect, the ECC's efforts would create a common, universal banking system with the Community — a universal banking system with a market of 324 million individual customers.

I think it is important to note here that our international trading partners to date have generally granted U.S. banking organizations national treatment in their domestic markets in regard to securities activities. In Canada, France, Germany, Hong Kong, Italy, the Netherlands, Switzerland and the United Kingdom, U.S. banking organizations generally may engage in securities and investment banking activities to the same extent as local banks. Japan offers limited U.S. banking organization engagement

As this quick tour around the globe shows, the governments of our trading partners — who are also our trade competitors — have eliminated and are continuing to eliminate geographic barriers to global finance and institutional barriers to universal banking. Why? To promote efficiency. To support their real economies with the most efficacious financial economy they can design.

Technology makes continued progress conceivable. But only the commitment of the political establishment within those countries that are our partners and competitors make it achievable. As I said before, the global financial market — the international economy — is the sum total — the net total — of the domestic policies of those governments. And the U.S. can be a full participant in the global financial market and the international economy only when our government's policies aim at that end.

An important part of ensuring full participation is reform of our own domestic financial structure. And the critical element in that reform is erasing Glass-Steagall Act restraints. If we fail to put our own house in order, the U.S. will ultimately hobble the performance of its own economy in the global arena. And also lessen the potential of the international economy as well.

So Glass-Steagall reform isn't just a matter of domestic concern in the United States — it is of concern to our global trading partners and competitors as well. Why haven't we put our house in order?

Political illusion has blinded U.S. policymakers to economic necessity. Indeed, political illusion led to the creation of the act itself in 1933.

During the early 1930s, Congressional investigations uncovered a number of instances from the 1920s in which bankers had used trust funds or consumer deposits they were managing to buy inferior bonds the bankers were trying to unload — thus taking advantage of their position as agency for both borrowers and lenders, both bond issuers and prospective bond purchasers.

At that time, it was widely recognized that these practices had nothing to do with the Great Depression that was then smothering the economy — and no one since then has been able to find evidence that a real connection existed. The Congress, however, when faced with the choice of legal reform to end these practices or retribution to cast blame for the Depression on bankers, chose retribution. Investment banks were prohibited from taking deposits.

Commercial banks were prohibited from dealing in corporate securities. And the entrenched economic interests that were created by this division have blocked reform until today.

As you all know, the U.S. Senate has approved legislation that would, in effect, repeal Glass-Steagall Act restraints on commercial bank participation in investment banking, and the House Banking Committee has approved similar, though less comprehensive legislation. The legislation is under consideration by two other House committees.

There are still unresolved questions surrounding many elements in the legislative package. Many of the questions revolve around provisions dealing with consumer protection issues — and other revolve around the issue of "firewall": legal insulation between the commercial and investment banking functions in the same institution. In addition, Congressional adjournment fast approaches.

Yet, there is the prospect that the banking reform legislative package could be passed this year. But "could" isn't the same as "will." And — given all the intangibles I just listed — there is the good possibility that if legislation does emerge, it may not be the kind that U.S. bankers will welcome.

Given the enormous interest in — and effort on — Glass-Steagall Act reform over the last decade, we at the OCC recently began the groundwork for a study of the profitability that four national banks have experienced from their activities in European, Asian and Latin American markets. Each of these banks operates branches and provides merchant banking, capital market, investment management, brokerage and, in some cases, insurance and real estate services to both local and U.S. customers, retail and corporate. The study will span the last 3 years of activity by these banks and is intended to measure their performance in markets where no Glass-Steagall barriers exist. Of special interest to us is the question of how successfully they have pursued applying to concept of niche businesses in open markets abroad.

Incidentally, the Government Accounting Office has requested that the Federal Reserve produce the same type of data as we are seeking for a number of large state-chartered bank operations abroad. We hope to have the OCC study completed early next year — and we will release the results publicly. If the Glass-Steagall debate in the U.S. should still be raging then, I'm sure our results — whatever they may be — will be of great interest to all the parties engaged in the debate.

Remarks of Robert L. Clarke, Comptroller of the Currency, before the Annual Convention of the American Bankers Association, Honolulu, Hawaii, October 10, 1988

I'm here today to talk about necessity.

Nothing, I think, illustrates the word "necessity" better than a story I heard early in my legal career in Texas. A woman from the far reaches of West Texas arrived in Austin one day to talk to the governor about getting her husband out of the penitentiary. After a long wait, she was ushered into the governor's office, where she stated her request.

"What is he in for?" the governor wanted to know. The woman replied: "Fer stealin' a ham." "Well," said the governor, "that doesn't sound too bad. Tell me, is he a good husband?" The woman replied: "Fact is, in the twenty-odd years we've been married, he's never had a kind nor gentle word fer me." "Well," asked the governor, "is he a good worker?" "No," said the woman, "I wouldn't say that. He's pretty lazy — I can't remember him keepin' a job fer mor'un a week." "Well," asked the governor, "is he a good father — good to the children?" "No," said the woman, "he's pretty mean to the young-uns, if you want to know the truth. Don't notice 'um 'til he's drunk — when he kicks 'um out of his way." "Ma'am," said the governor, "I have to ask you: why do you want a man like that out of prison?" And the woman earnestly replied: "Governor, we're about outta' ham."

Necessity isn't what you want to do. Necessity isn't what you don't mind doing. Necessity is what you have to do when circumstances require you to take action.

But necessity is necessity only if you realize it exists. You can ignore necessity. And you can avoid it. But if you ignore or avoid the necessity of taking action when circumstances demand that you do, you become the captive of events. And when you are imprisoned by events, release may be a long time in coming.

Consider, for example, the restraints Congress placed on banking in the 1930s, restraints that have burdened banking for more than half a century.

Where was the banking community when that legislation was being drafted? The place where the banking community often takes its stance during legislative events. In opposition. Proposing no constructive alternative.

A keen observer of the time was U.V. Wilcox, the Washington bureau chief of the *American Banker* newspaper. Then, as now, the *American Banker* covered banking's fortunes in Washington intensely, day-by-day. Bureau chief Wilcox described banking's experience under the New Deal in a book titled: *The Bankers Be Damned* — a title that summed up banking's fortunes during the Roosevelt Administration. Wilcox's own sympathy and good will toward the industry was reflected in his dedication of the book to its subject: bankers.

But for all of his good will and sympathy, Wilcox was a newspaper reporter who prided himself on his objectivity. Of the legislative struggle that led to the creation of the Banking Act of 1935, Wilcox wrote this: "Organized banking played some part in the contest. Well known names from the top rosters of the largest financial institutions of the nation were featured as they bitterly attacked, but not too adroitly, the basic philosophy of that measure."

And Wilcox continued: "Banking has not, unfortunately, throughout its dealings with the Government, learned any other method of registering its disagreement than to either violently oppose or weep and wait on the sidelines. Oftentime in glorious frontal attacks on political . . . lines, it has gone down in bloody defeat with only minor gains scored, whereas it might have shrewdly bored from within. It could have joined with the enemy on those principles upon which it could agree and thus exerted its influence where it would be most effective." But in 1935, Wilcox concluded, "organized banking gained nothing but the enmity of the political phrase makers."

To most of you, the story of New Deal legislation is ancient history. But you live with its consequences every day.

Now in recent years organized banking, the banking community represented in this hall today, has, for the most part, advocated, rather than opposed, change. You have advocated the lifting of the restraints imposed during the New Deal. I remember saying a few words, several times, before the annual convention of the American Bankers Association in support of your efforts. But I'm not here today to discuss those legislative efforts.

Rather, I am here to look a few months into the future, where I see a severe flaw in our financial services system generating crisis, where I see that crisis prompting the federal government to react, and where I hope to see the banking community playing a part in the ultimate resolution of the situation.

As an observer who has a large measure of good will and sympathy for your industry — and some responsibility for its safety, soundness and stability — I want to discuss the necessity for bankers doing some hard thinking over the course of action you will take, the necessity for bankers making some hard choices, the necessity for bankers being at the table when the hard decisions are made.

If you can count, then you know that a crisis is upon us.

The thrift industry posted a $3.6 billion loss in the second quarter. Insolvent thrifts had losses of $4.3 billion, while their solvent counterparts, five times the number of involvent thrifts, posted $660 million in earnings. In the first quarter, the thrifts posted a $3.9 billion loss. In the last quarter of 1987, the industry lost $4 billion. As long as this bleeding remains unstanched, the ultimate cost of resolving the situation will rise. To allow it to continue to rise would be crazy.

Estimating what it would cost to resolve the problem of insolvent thrift institutions has become a popular pastime in Washington lately. Some analysts have estimated that resolving the problem today could cost as much as $100 billion. Now I'm going to play the numbers game myself, but whether the resolution will cost $20 billion or $100 billion, or somewhere in between, it is clear that the cost will be high. There is every reason to believe that a resolution to the crisis is likely to come early in the next Congress. What form will that resolution take? Let's look at some possibilities.

One possibility is a taxpayer bailout. Senator Proxmire, who is not known as a free spender of tax dollars, thinks that a bailout is inevitable. He says that the next Congress will have to appropriate at least $20 billion in federal funds to take care of the problem — with another $30 billion having to be assessed on the healthy portion of the industry over the next several years. Senator Proxmire says this would provide the Federal Home Loan Bank Board with enough cash to liquidate the insolvent thrifts. But that is only the first step he advocates.

In association with a bailout, Senator Proximire wants the Bank Board to end its forbearance policy; to stop insuring the activities permitted state-chartered institutions by state legislatures; and to subject the thrifts to the same capital, accounting, and regulatory restrictions that apply to commercial banks.

You in the banking community should be pleased with those elements of Senator Proximire's package that would force thrifts to play by the same rules that banks must obey. After all, that's one of the two objectives in the ABA's strategy. You should be pleased, that is, if you view the crisis solely as a problem to be contained.

But nothing dictates that mere containment will be the form the resolution takes. And nothing says that Senator

Proxmire's plans will win the political support necessary for enactment. Is the political will there for Congress to proceed with a simple taxpayer bailout? What if the numbers are larger than Senator Proxmire estimates? Would the political will decline as the bottomline cost rises? These are intriguing questions. They are far from academic. And they lead to another possibility.

Certainly in its search for funds to resolve the problem, Congress will consider a most obvious source: the Federal Deposit Insurance Corporation. Merging the FDIC insurance fund with the thrift insurance fund has a political attractiveness that cannot be ignored. Certainly, there isn't enough money in the FDIC fund to solve the problem. But the fund is enough to serve as a signficant down payment. And it is available. And the argument can be made that a merger, in conjunction with some appropriation of federal funds, would be, in effect, a sharing of pain.

For these reasons alone, merging the FDIC with FSLIC does indeed have a political attractiveness that cannot be ignored. It cannot be ignored, despite the fact that the second objective in the ABA's strategy is to shelter the FDIC fund from the storm. How are you seeking to do that? By saying "no." Well, you can just say "no" to a lot of things in life, but Congress isn't one of them.

I have, as you know, long argued against the merger of the funds because a merger would not be fair. I have, as you know, argued against the merger of the funds because a merger alone would not solve the problem. And I have, as you know, argued against a merger because depleting the FDIC fund to resolve thrift insolvencies would leave nothing to resolve future bank failures.

My arguments, I believe, were good arguments. They were, and are, the best arguments anyone can make against tapping the FDIC fund. But I now doubt that they are compelling arguments in the particular circumstances we face. These circumstances argue a more compelling case, a case built around necessity.

When your neighbor's house is on fire, the fire fighters responding to the alarm won't ration water to make sure there is enough for you should your house go up in flames, too. They will pump until the fire at hand is out. And they will tap your private well to finish that job. They act in an emergency and use every expediency.

Who will say that, in an emergency, Congress will not do the same? I fully expect that Congress will explore every available expediency, and tapping the FDIC is certainly expedient. Necessity makes it so.

Furthermore, when both FSLIC and the FDIC have been depleted, it is reasonable to expect that Congress would consider seeking to insure, that is to say, guarantee, deposits at federally insured institutions through a direct line at the Treasury. That means the contingent liability of deposit coverage would fall on the taxpayer, who thereafter would foot the bill for depositor protection. If that occurred, it would not be reasonable to expect that Congress would fold the FDIC into the Treasury.

There is an old European proverb: "He who takes the king's penny must do the king's bidding." From country to country, the monetary unit may change, but the sentiment is always the same. It comes from long experience.

If the Treasury directly guarantees an institution's deposits, doesn't it seem reasonable to expect that Congress would consider granting the Treasury a direct say in that institution's supervision?

This and other questions surrounding a merger of the funds are also intriguing — and also are far from academic.

So far, in talking about a taxpayer bailout and about merging the funds, I have assumed, as I believe many of you have, too, that Congress will simply contain the problem. That assumption forms one type of perspective.

But your perspective changes as you change your assumptions, as a friend of mine from college found out early in his calling as a Catholic priest.

Soon after he was ordained he was assigned a parish in a small, rural town. Being recently out of the seminary with its heady theological discussions, he assumed that his parishioners would be as interested in doctrine as he was. He set up a series of lectures to deliver to his flock on Thursday evenings. His first topic was "Immaculate Conception," and he gave what he imagined to be an inspired and thorough lecture on the subject. When he had finished, he asked if there were questions, not really expecting any. But a lady in the back raised her hand and inquired timidly: "Father, what are its advantages?"

We have assumed that Congress will act to simply contain the problem. But, like my friend the Catholic priest, our assumption may be wrong. Let's change our assumption to consider other possibilities.

Let's assume that, in dealing with the savings and loan problem, Congress goes beyond simple containment and considers solving the problem within the context of restructuring the financial services system. That approach could have wide-ranging implications for bankers. It could, for example, affect the competitiveness of your industry by redrawing the boundaries of regulatory and supervisory authority.

How? It is conceivable that a merger of the FDIC and FSLIC funds could lead to a merger of all the depository institution regulatory authorities. At the very least, such a merger would result in banks and thrifts operating under the same regulatory structure.

That structure could lift banks to the same level as the thrifts in terms of federal regulatory authority; that is to say banks could gain the competitive opportunity federal authority now grants thrifts in terms of ownership, lines of business, branching, and so on. And thrifts would be subjected to the same safety and soundness standards as banks. If all that happened, I don't see how any depository institution could thereafter, through regulation, be granted a comparative advantage over any other depository institution. The playing field, at least for depository institutions, would at last be level.

Taking a restructuring approach, rather than one of simple containment, could also lead Congress to examine related questions. For example, it is no secret that savings and loan associations' financial problems began because the institutions were so highly specialized that they could not adapt when the environment shifted. Can't you imagine that restructuring, triggered by a need to deal with the savings and loan problem, could also address the need for continued regulatory specialization? Hasn't the right time come, or indeed, long passed, to reexamine the need for any government-imposed restrictions that establish different types of financial service providers?

It was once argued that a separate thrift industry, created and perpetuated by law and regulation, was crucial to home lending. Without a separate industry, the reasoning ran, home lending would dry up. Thrift industry representatives made this argument before Congress again and again. But we haven't heard it much in recent years. Today there is a lot of home lending going on — but banks and the mortgage companies are doing much of it.

So much for one specious argument of the past, a beautiful theory slain by a group of ugly facts called reality. Isn't it time for us to reexamine other protectionist arguments?

At first glance, the S&L crisis seems to be a simple, though an enormous problem. But even if you do, that doesn't mean that the banking community has no interest in how the crisis is resolved. You cannot ignore it. You cannot avoid it. You cannot walk away from it. You cannot put your heads in the sand and pretend that it is of no concern to you.

Let's face it. The banking community must by necessity be involved in shaping the resolution of this problem and in shaping our future.

Things that seem less than critical at the time can turn out to mean a lot. Reading George Moore's *A Banker's Life* brought that lesson home to me in terms of legislation.

Moore was head of First National City Bank, Citibank, until his retirement in 1970. In the book he writes about his experience as a young man in his shaping of New Deal legislation. National City didn't try to prevent the legislation. It didn't stand on the sidelines chanting "no." Rather, it did seek — in the Glass-Steagall Act and the Banking Act of 1935 — to have foreign branches exempted from the new legislation. Those branches had to compete abroad with foreign banks governed by foreign law. If National City were stuck with complying with U.S. law in its operations abroad, it would have had to close up shop there. But Moore convinced Congress to exempt foreign branches from its New Deal legislation. And Moore concludes: "Without these exemptions, we never could have launched Citicorp's international banking enterprise of the 1960s and 1970s."

Even if events lead to a resolution of the S&L crisis that is solely a containment, banking still has enormous interests at stake. It's not enough to stand on the sidelines and say "No, no, no." You did that with the funds availability legislation, a far less important matter, and what did you achieve?

When you deal yourself out at the beginning of the game, you may find it difficult or impossible to get back in when the game changes. And that is my most important point. If the banking community refuses to acknowledge even the mere possibility of using FDIC funds as part of a solution to the thrift crisis, it is walking away from the table. By making a non-negotiable demand — thou shall not put the touch on the FDIC — the banking community removes itself from the negotiations. And by doing so the banking community won't affect the outcome one bit.

Congress gave the banking community the FDIC. Bankers funded it. But Congress created it and wrapped the Federal government's mantle about it. Like all independent agencies in our government, the FDIC is a creature of Congress. And what Congress gives, Congress can take away. On this issue, banking can propose. But Congress will dispose.

Rather than making a futile gesture of opposition, shouldn't banking elect to remain at the table? What if the resolution of the thrift crisis were to expand beyond mere containment to include substantive and substantial decisions on financial system restructuring?

How credible — how effective — do you think bankers would be if, after stalking away from the table, you returned in mid-game and demanded to be dealt back in?

That last question is an intriguing one. And it is one, I think, of more than academic interest, or I wouldn't have travelled halfway around the world to ask it to you today.

Just as I must ask. Do you want to find banking — again — a prisoner of events? With no appeal? And no release in sight? Would you rather help shape events? Or have events shape you?

Interpretive Letters—July 15 through September 15, 1988

430—October 20, 1987

This responds to your letter of September 4, 1987, in which you requested an opinion of this Office regarding several questions arising under the Change in Bank Control Act of 1978 (CBCA or Act). We understand the following facts from your letter: Currently, your client, a national bank (Bank), is controlled by a stockholders group (Group) formed pursuant to a voting trust agreement (Agreement). Pursuant to the Agreement, the individual stockholders are the record and beneficial owners of the shares of capital stock of the Bank (herein referred to collectively as Subject Shares). One stock certificate representing the Subject Shares was issued in the name of the Trustee as a matter of convenience. The individual members of the Group have their ownership interests in the Subject Shares evidenced by voting trust certificates. The Group filed a Change in Bank Control Act Notice (CBCA Notice) with respect to the original acquisition of the Subject Shares by the Group.

With respect to voting, the Trustee must vote 100 percent of the Subject Shares at all meetings at which the holders of the Bank stock are entitled to vote, as the members of the Group constituting at least a majority (and a greater percentage in certain specified circumstances) determine is in the best interest of the Bank and stockholders. Each holder of a Subject Share is entitled to one vote for each Subject Share held. You stated your opinion that the Agreement constitutes a nonabsolute voting trust since the beneficiaries direct the manner in which the Trustee votes the Subject Shares.

It is proposed that the trust relationship (which separates the beneficial ownership interests of the Group members from the legal title which is held by the Trustee) be eliminated and actual shares of capital stock be registered and issued in the names of individual stockholders according to their respective ownership rights. The Agreement will not be terminated but will be amended and restated to reflect this change. No new stockholders will be added to the Group. In addition, the current Trustee would be replaced to provide for Voting Persons (so designated to reflect that these persons do not hold legal title to the Subject Shares). One of the Voting Persons will be appointed from the existing Group. This individual will have previously submitted complete biographical and financial information required by the Act with the CBCA Notice. The other Voting Person will not have or acquire an ownership interest in the Bank. This person will merely act in his fiduciary capacity as a Voting Person. A Voting Person, like the current Trustee, will be able to vote only in the manner directed by the Group.

You requested the opinion of this Office whether any of the parties involved in the above-described proposal must file a CBCA Notice. It is our opinion, as described below, that the proposed transaction would not prompt a change in bank control and, therefore, none of the parties would be required to file a Notice.

Under the Act, "No person, acting . . . in concert with one or more other persons, shall acquire control of any insured bank through a purchase, assignment, transfer, pledge, or other disposition of voting stock of such insured bank unless the appropriate Federal Banking agency has been given sixty days' prior written notice of such proposed acquisition . . . ." 12 U.S.C. § 1817(j)(1). "Control" is defined as the "power, directly or indirectly to direct the management or policies of an insured bank or to vote 25 per centum or more of any class of voting securities of an insured bank." 12 U.S.C. § 1817(j)(8)(B); 12 C.F.R. § 5.50(d)(1).

Under certain circumstances, a voting trust may be considered a control person subject to the Notice requirements of the Act. In OCC Interpretive Letter No. 140, *reprinted in* [1981-1982 Transfer Binder] Fed. Banking L. Rep. ¶85,221, the Office opined that the term "person" is broadly defined in the Act to include a voting trust. In that case, the trust's acquisition of "control," as defined in the Act, would necessitate the filing of a Notice. Similarly, the termination of the trust would constitute a disposition of stock within the meaning of the Act and, therefore, may require compliance with the Notice requirements of the statute by the transferees.

In this case, however, the Group is not required to file a Notice because the termination of the voting trust would not result in the acquisition of additional voting power or control. The only effect of such termination would be to vest the legal title to the stock certificates with the individual stockholders rather than the trustee. The Agreement would remain intact and no new members would be added to the Group. The Group's control over the Bank and the manner in which such control is exercised through the Agreement would remain unchanged.

The voting Persons also would not be required to file CBCA Notices since these persons similarly would not acquire control of the Bank. They will neither acquire legal title to the stock nor discretionary authority to direct the voting of the stock. The Voting Persons will merely perform the ministerial function of voting the stock as directed by the Group.

In addition, without providing a specific factual context, you also requested an opinion of this Office concerning a number of questions relating generally to voting trusts. We are unable to answer these questions, as it is the Office's policy not to provide advisory opinions involving hypothetical fact situations. Also, please be aware that the opinions herein are limited to the facts of this case. The presence of significantly different facts could lead to a different result.

I trust this has been responsive to your inquiry.

John Bruno
Attorney
Securities & Corporate
Practices Division

* * *

431—November 5, 1987

This is in response to your letter of July 31, 1987, to Mr. Ballard C. Gilmore of this Office's Corporate Activity Division, in which you inquire whether a proposed agreement (Agreement) between *** Corporation and a national bank (Bank), which provides for the hiring of the Bank's employees by *** and the leasing of the Bank's employees back to the Bank, would violate any policy of this Office.

In your letter, you state that the purpose of the Agreement is to provide administration, benefits and employee retirement plans for the persons now employed by the Bank. The benefit to the bank is that it is relieved of the responsibilities of payroll processing, making quarterly tax filings, tax deposits, providing W-2's, providing worker's compensation insurance and handling claims for insurance and unemployment. Pursuant to a contract with the Bank, an "on-site employee" of *** (who will be the Bank's president, having been previously hired by the Bank's Board of Directors) will oversee supervision, discipline, and termination of the other leased employees. Paychecks will be drawn up and delivered by ***. Employee taxes, insurance, other benefits and retirement plan contributions will be paid by ***. *** will make such payments out of funds set aside for this purpose and paid to *** by the Bank in a lump sum (one time per payroll period) to cover these items plus a fee of 4% of the gross payroll funds to *** for these services.

Your letter also states that the Bank's employees will be hired by ***, but the Board of Directors of the Bank will continue to manage the affairs of the Bank and its leased employees. The on-site supervisor, although he or she will become a *** employee, will be the person selected initially by the Bank's Board of Directors to perform this function and he or she will continue to be responsible to the Board of Directors. If the president resigns or is otherwise terminated, the Board of Directors will have the final say regarding the president's replacement.

According to 12 U.S.C. § 71, the Board of Directors is responsible for the management of the affairs of a national bank. Each individual director must take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association, and will not knowingly violate or willingly permit to be violated any of the provisions of the national banking laws, 12 U.S.C. § 73. Thus, while the Board of Directors of the Bank may not delegate responsibility for its duties, it may properly assign the performance of its duties. Interpretive Ruling 7.4425, 12 C.F.R. § 7.4425. Consequently, subject to any existing limitations imposed by national banking laws or the Bank's articles of association, by-laws, or organization certificate, the Board of Directors of the Bank may enter into the Agreement with *** so long as they continue to retain and exercise general supervision over the affairs of the Bank and do not discharge their duty by reposing the entire administration in ***, without supervision.

I trust that this is responsive to your inquiry. If you have any questions, please contact Asa Chamberlayne, at (202) 447-1954.

Coreen S. Arnold
Acting Assistant Director
Securities & Corporate
Practices Division

* * *

432—December 28, 1987

This is in response to your letter of September 14, 1987, and our meeting with *** September 30, 1987 in which you requested that the Comptroller's Office not object to the offer and sale by *** (Bank) of certain notes (the Notes) without compliance with the offering circular requirements set forth in 12 C.F.R. § 16 (Part 16).

The Notes Bank proposes to sell are general unsecured obligations of the bank. They are not deposits insured by the Federal Deposit Insurance Corporation and are not subordinated to deposits. The proceeds of the Notes will be used by the Bank in the conduct of its business, including making loans, investing in securities eligible for purchase by national banks, and dealing in precious metals and foreign exchange. You state that the Notes will be offered and sold to sophisticated investors, such as banks, insurance companies and pension plans, by an independent, reputable underwriter.

According to your representations, the Bank is a subsidiary of *** (Holding Company) which is a bank holding company registered under the Securities Exchange Act of 1934 (Exchange Act). You state that the Holding Company holds 100 percent of the Bank's stock, and that the Bank accounts for 80 percent of the Holding Company's assets, revenues and net income. You believe that the activities of the Holding Company and the Bank are adequately disclosed in Form 10-Q Quarterly Reports and Form 10-K Annual Reports that are filed with the Securities and Exchange Commission under section 13 or 15(d) of the Exchange Act. You have represented that these

forms will be incorporated into an Offering Circular which will be used to offer and sell the Notes and which will include the Bank's latest reports of condition and a description of the Notes themselves that is similar to that required by 12 C.F.R. § 16.6(b) or 12 C.F.R. § 11.822.

The issuance of promissory notes by a national bank is governed by 12 C.F.R. § 7.7530. According to subsection (a), "[a] national bank may issue at par or discount its negotiable or nonnegotiable promissory notes of any maturity." Subsection (b) directs the bank to consult Part 16 for offering circular requirements with respect to a public offering of such notes. The general rule of Part 16, at 12 C.F.R. § 16.3(a), provides that no bank shall offer or sell a security for which it is the issuer unless the offer or sale is made through use of an offering circular which has been filed with, and declared effective by, the Comptroller of the Currency. You have concluded that the Notes are not "securities" within the meaning of 12 C.F.R. § 16.2(d). According to that section, "[t]he term 'security' means any common stock, preferred stock, or other equity security, or right to subscribe to any of the foregoing, or subordinated note or debenture. The term 'security' shall not include any bank indebtedness incurred in the ordinary course of business." You have represented that the Notes will not be subordinated to deposits and that the proceeds will be used by the Bank for general corporate purposes in the ordinary course of its business.

Based on the limited circumstances that:

1. The bank is a subsidiary of Holding Company, a bank holding company registered under the Exchange Act;

2. The Notes are not subordinated to deposits;

3. The Notes will be offered and sold only to institutional and other financially sophisticated investors, such as banks, insurance companies and pension plans;

4. Potential purchasers will receive an Offering Circular including the Bank's latest call reports, which incorporates copies of the 10Q and 10K filings made with the SEC, and which also will contain a description of the Notes themselves that is similar to that required by 12 C.F.R. § 16.6(b) or 12 C.F.R. § 11.822;

5. The Notes will be offered and sold by a reputable and experienced underwriter, not affiliated with the Bank, as part of an underwritten public offering; and

6. The proceeds of the Notes will be used for general corporate purposes in the ordinary course of the Bank's business;

and subject to the particular facts presented in this letter, this Office will not object to the issuance of the Notes by the Bank without compliance with the requirements of 12 C.F.R. § 16. Please note that new legislative or regulatory developments may necessitate a change in this position and that we reserve the right to come to a different conclusion should different facts come to our attention.

Michael C. Dugas
Senior Attorney
Securities & Corporate
Practices Division

* * *

433—June 3, 1988

Sandra Stern
Associate General Counsel
Republic National Bank of New York
Fifth Avenue at 40th Street
New York, New York 10018

Dear Ms. Stern:

This letter is in response to your letter of September 25, 1987, to Thomas W. Taylor, Deputy Comptroller of the Currency for the Northeastern District, notifying the Office of your intent to establish a new operating subsidiary, as required by our regulations at 12 C.R.R. § 5.34. The Office extended the 30-day review period on October 23, 1987, to permit further consideration of certain issues. Establishment of the subsidiary is approved, subject to the supervisory conditions stated below.

According to your letter, Republic National Bank of New York (the Bank) intends to establish a wholly owned operating subsidiary to be known as Republic Forex Options Corporation (RFOC), or some similar name. (It is possible that an existing, inactive subsidiary may be used instead.) RFOC would become a Foreign Currency Options Participant Organization on the Philadelphia Stock Exchange (the Exchange) *See* Philadelphia Stock Exchange Guide (CCH), Rules of Board of Governors ¶2016 (October 14, 1982). Under the rules of the Exchange, such an organization is entitled to trade foreign currency options on the Exchange, but not other securities. *Id.* ¶1643. A holder of a foreign currency options participation has no equity interest in the Exchange and no right to vote under the Exchange's bylaws. However, the Exchange considers Participant Organizations to be members for disciplinary purposes.

RFOC would be a Registered Options Trader (ROT), *i.e.*, a regular member of a foreign currency options participant, which is located on the trading floor and has received permission from the Exchange to trade in

options for its own account. ROTs are market makers who function is to contribute to the maintenance of a fair and orderly market by entering into transactions or making bids or offers. An ROT is required to make a market in a foreign currency option if requested by a member of the Exchange, but only when the ROT is physically present on the floor of the Exchange. *See generally* Exchange Rule 1014, *id.* ¶3014. RFOC would act as a market maker in all of the foreign currency options currently traded on the Exchange, *i.e.*, Australian dollars, Canadian dollars, British pounds, German marks, Swiss francs, French francs, Japanese yen, and the European Currency Unit. Market making activities would be conducted in both American- and European-style options[1]. RFOC intends to qualify one of its experienced options traders as the individual who would conduct these activities on the floor of the Exchange.

RFOC would not become a member of any clearing association. Rather, for purposes of clearing RFOC's trades on the Exchange, membership in the Options Clearing Corporation would be held by Republic Clearing Corporation. The latter is a wholly owned subsidiary of the Bank's parent holding company, Republic New York Corporation. However, RFOC would seek registration with the Securities and Exchange Commission as a broker-dealer and, if so required, would be similarly qualified in Pennsylvania.

This Office has previously approved the same activities that RFOC proposes to engage in, finding that they are incidental to banking under 12 U.S.C. § 24 (Seventh). Interpretive Letter No. 384, [Current] Fed. Banking L. Rep. (CCH) ¶85,608 (May 19, 1987); Interpretive Letter No. 372, [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶85,542 (November 7, 1986); letter of Michael Patriarca, Deputy Comptroller for Multinational Banking (January 11, 1984); OCC News Release 83-36, [1982-1983 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶99,554 (May 13, 1983); *see also* Interpretive Letter No. 260, [1983-1984 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶85,424 (June 27, 1983) (bank may buy and sell exchange-traded options on bank-eligible securities for hedging purposes).

Based on the foregoing, the Bank may proceed to establish RFOC for the purpose of becoming a Foreign Currency Options Participant Organization and Registered Options Trader under the rules of the Philadelphia Stock Exchange.

While the office has determined that the activities proposed for RFOC are legally permissible, it also has an obligation to ensure that the investment and lending activities of national banks are conducted in a manner consistent with prudent banking practice. We therefore find it appropriate to incorporate the following exposure limitations as conditions to our approval of the establishment of RFOC:

- The Bank's investment in, and loans to, RFOC may not exceed its legal lending limit at the time of the investment or loan. The Bank shall not make any additional investments of equity capital in RFOC without the prior written consent of the Office. For purposes of calculating the lending limit, the Bank's investment in RFOC shall be considered unsecured. The Bank may lend RFOC an additional ten percent of unimpaired capital and surplus if it is secured by readily marketable collateral as provided by 12 U.S.C. § 84.

- The operating subsidiary's exposure to the Exchange shall be limited to the amount of its capital. The Bank shall not guarantee or assume responsibility for any liability of its operating subsidiary. The Bank shall obtain written assurance that the Exchange understands these conditions.

J. Michael Shepherd
Senior Deputy Comptroller
for Corporate and Economic Programs

* * *

434—June 27, 1988

John P. Emert
Associate Counsel
Marine Midland Bank, N.A.
140 Broadway
New York, New York 10015

Dear Mr. Emert:

This is in response to your notification, as required by our regulations at 12 C.F.R. § 5.34, of a proposed activity to be performed by an existing operating subsidiary of your bank. For the reasons which follow, you may proceed to implement your proposal.

Proposed Activities

As set forth in your letter, the proposed transaction is as follows. Public Financial Management, Inc. (the Subsidiary) is a wholly owned operating subsidiary of Marine Midland Bank, N.A. (the Bank). The Subsidiary is an advisor to issuers of tax-exempt debt. It proposes to invest $300,000 in Enright & Company (the Company), a New Jersey limited partnership which also acts as an advisor to issuers of tax-exempt debt. This advice includes struc-

[1] An American option can be exercised on or before the fixed expiration date, while a European option can be exercised only on the fixed expiration date. 2 A. George & I. Giddy, International Finance Handbook (Glossary) (1983).

turing, pricing, and placement of this debt through private placements. In the future, the Company may act as an advisor to issuers of taxable debt, as well. The Company's office is located in New York City.

The Subsidiary's investment would be in the form of a $300,000 convertible, subordinated note. The note would be payable in one amount four years after the date of issue and would bear interest at a floating rate equal to the daily federal funds effective rate. The note would be convertible, at the Subsidiary's option, from the date of issue until June 30, 1989, into a limited partnership interest in the Company equal to 17.5% of the partnership capital.

At the time of the purchase of the note, the Subsidiary would also receive from the Company an option to purchase substantially all of the Company's assets (less cash and receivables) upon the payment of one million dollars to the Company. This option would be exercisable by the Subsidiary, another subsidiary of the Bank, or the Bank, during the period beginning six months from the date of issue of the note and ending on June 30, 1989. As a condition precedent to the exercise of the option, the note would be converted notionally into the 17.5% limited partnership interest described above. The assets that would be acquired include a nominal amount of fixed assets, such as office furniture and rights to certain contracts to provide investment advisory services to issuers of debt. Also, either the Subsidiary, another subsidiary of the Bank, or the Bank would offer employment to the current general partner of the Company, as well as to certain other employees of the Company.

The Company may, from time to time, refer to the Bank for the Bank's consideration, in accordance with the Bank's customary credit standards, opportunities for the Bank to privately place municipal and corporate obligations, and to underwrite certain municipal obligations which are eligible for underwriting pursuant to 12 U.S.C. § 24(Seventh). If underwriting of corporate obligations should become permissible for national banks in the future, these would also be referred. The Bank would have no obligation to participate in such referral business, but if the Bank accepted such business, it would be compensated by fees to be negotiated on a case-by-case basis. All private placement activity by the Bank or the Company would be without recourse, solely on an agency basis, upon the order of and for the account of institutional investors.

Analysis

It appears that the purchase of the Company's note by the Subsidiary, as well as the exercise of the limited partnership option, are intended to be preliminary steps toward the complete acquisition of the Company. Presumably, this will be done unless adverse business considerations should develop in the near future, and it is therefore appropriate to analyze your proposal in light of that objective.

Two issues are presented. First, are the Company's activities permissible for national banks and their operating subsidiaries? Second, may the Company be acquired partly through the purchase of a subordinated, convertible note? The answer to both questions is clearly "yes."

National banks may choose to perform activities which are incidental to banking by means of operating subsidiaries. 12 C.F.R. § 5.34(c). Both the Subsidiary and the Company are municipal finance advisors, a type of business which we have found to be incidental to banking. Interpretive Letter No. 122, *reprinted in* [1981-1982 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,203 (August 1, 1979): unpublished letter of Emory W. Rushton, Deputy Comptroller for Multinational Banking, February 17, 1987.

It is also clear that private placement of securities on an agency basis is not "underwriting" which would be prohibited by § 16 of the Glass-Steagall Act, 12 U.S.C. § 24(7). *Securities Industry Association v. Board of Governors of the Federal Reserve System,* 807 F.2d 1052 (D.C. Cir. 1986), *cert. denied,* 107 S. Ct. 3228 (1987); No Objection Letter No. 87-4 (May 19, 1987), *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 84,033; Interpretive Letter No. 212 (July 2, 1981), *reprinted in* [1981-1982 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,293.

We have on numerous occasions permitted national banks or their operating subsidiaries to engage in business activities either in partnership with or through acquisition of other companies. *See, e.g.,* Interpretive Letter No. 381 (May 5, 1987), *reprinted in* [Current] Fed. Banking L. Rep. (CCH) ¶ 85,605 (operating subsidiary as general partner); unpublished letter of Peter C. Kraft, District Administrator, Midwestern District (June 27, 1984) (operating subsidiary as limited partner); Interpretive Letter No. 370 (April 16, 1986), *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,540 (acquisition of existing company as operating subsidiary).

Of course, any limited partnerships involving national banks or their operating subsidiaries must be restricted to bank-permissible activities. Unpublished letter of William B. Glidden, Assistant Director, Legal Advisory Services Division, November 2, 1987. If a limited partnership engages in activities which are not permissible for national banks, the bank or subsidiary may not continue in the partnership. Unpublished letter of Eugene A. Marsico, Jr., Attorney, Midwestern District, July 15, 1985. As noted above, the Company's present activities are permissible for national banks.

The only feature which distinguishes your proposal from others which have been approved in the past is the use of the convertible note. Instead of making an equity investment immediately the Bank has structured the transaction in such a way that it does not have to commit itself fully at the outset and need not go through with the acquisition if conditions change. This is merely exercising prudence, and there is no reason why it should vitiate an otherwise routine transaction. Therefore, the Subsidiary's purchase of the subordinated, convertible note as a step toward either limited partnership in or complete acquisition of the Company is permissible.

The Company is not a "municipal securities dealer" within the meaning of § 3(a) of the Securities Exchange Act of 1934, 15 U.S.C. § 78c(a). Thus, it would ordinarily not be subject to the regulations of the Municipal Securities Rulemaking Board ("MSRB"). Nevertheless, the potential for abuse which the MSRB rules are intended to combat still exists. I call your attention in particular to MSRB Rule G-23, *reprinted in* MSRB Manual (CCH) ¶ 3611 (1986), regarding financial advisors.

If the financial advisory activities described above were performed directly by the Bank instead of by a subsidiary, the division of the Bank and the personnel conducting the activities would be required to be part of the Bank's registered municipal securities department, and be subjected to the MSRB rules. *See* MSRB Rule G-1, *id.* at ¶ 3501. We therefore find it appropriate to require as a condition of approval that the Company comply with all MSRB rules that would be applicable if its activities were conducted within the Bank.

For the reasons which have been given, I find that both the activities and structure of your proposal are permissible for national banks or their operating subsidiaries. This approval is subject to the supervisory condition stated above, and is based upon the representations contained in your letter. Any material change in the proposal as outlined therein could necessitate a different conclusion.

J. Michael Shepherd
Senior Deputy Comptroller
for Corporate and Economic Programs

* * *

435—June 30, 1988

This responds to the issues raised in your letters of May 2 and May 11, and in our meeting of May 4, 1988. The issues involve whether a national bank may lawfully invest in *** (the Partnership), an investment vehicle sponsored by ***. The Partnership is a Delaware limited partnership organized to invest in three categories of investment: (1) federally insured mortgages and mortgage-backed securities purchased at or around par, (2) U.S.Government-backed insured mortgage loans and mortgage-backed securities purchased at a discount, and (3) participating mortgage investments. A participating mortgage investment consists of a base mortgage investment which will be a GNMA mortgage-backed security or a federally insured mortgage and a participation which will consist of the Partnership acquiring a limited partnership interest in another limited partnership, which will be formed to own, operate, and renovate real estate.

Discussion

The first issue is whether a national bank may lawfully invest in limited partnership units in the Partnership. As a general rule, a national bank may not enter into a partnership, because it lacks authority to assume liability for the actions of its partners. *See Merchants National Bank v. Wehrmann*, 202 U.S. 295 (1906). The OCC has, however, permitted national banks to invest in partnerships where the bank's partnership liability is in some way limited. Thus, we have permitted national banks to invest in limited partnerships, but we have restricted such investment to investment in limited partnerships that engage solely in activities in which a national bank may engage. *See, e.g.*, Letter of William B. Glidden, Assistant Director, Legal Advisory Services Division (Nov. 13, 1986.)

Here, you propose that national banks be permitted to invest in the Partnership, which invests in other limited partnerships, which own, operate, and renovate real estate. This fact is significant to the above analysis because a national bank may not, of course, generally own, operate, and renovate real estate. Twelve U.S.C. § 29 grants national banks some, limited authority to "purchase, hold, and convey real estate . . . [(1) s]uch as shall be necessary for its accommodation in the transaction of its business" (*e.g.*, bank premises), or (2) in a debt-previously-contracted context. That limited authority does not include generally owning, operating, and renovating real estate (note that the statute provides no *de minimus* exception). Thus, because a national bank may not invest in a limited partnership that engages in activities in which a national bank may not engage, and the Partnership, as described in your letters, engages, albeit indirectly, in an activity in which a national bank may not engage, it naturally follows that a national bank may not invest in the Partnership.

You suggest that the above may not be the appropriate analysis; rather, you suggest, we should focus, not on the activities of the limited partnerships, but on the nature of the rights conferred on the limited partner. Under that analysis, you suggest that the limited partnership interest represents no more than the "substantial equivalent" of a secured loan with an "equity kicker," which is permis-

sible under 12 U.S.C. § 24 (Seventh) and OCC Interpretive Ruling 7.7312, 12 C.F.R. § 7.7312. We agree that a bank may engage in lending, with an "equity kicker," so long as it is consistent with OCC Interpretive Ruling 7.7312, 12 C.F.R. § 7.7312; however, we do not find that national bank investment in the Partnership as you describe it fits within that description.

The second issue you raise is whether a national bank may purchase shares of corporate stock should the Partnership change its form, as you suggest it might, from a Delaware limited partnership to a real estate investment trust (REIT), organized as a Delaware corporation. The resolution of that issue involves the general corporate-stock-ownership prohibition of Section 16 of the Glass-Steagall Act, which provides that

> [e]xcept as hereinafter provided or otherwise permitted by law nothing herein contained shall authorize the purchase by [a national bank] for its own account of any shares of stock of any corporation. (12 U.S.C. § 24(Seventh))

The OCC has interpreted this language to prevent national banks from purchasing corporate stock except for stock in (1) a subsidiary formed to hold bank premises, 12 U.S.C. § 371d; OCC Interpretive Ruling 7.3100, 12 C.F.R. § 7.3100; (2) agricultural credit corporations, 12 U.S.C. § 24(Seventh); (3) the central bank of a foreign government where such purchase is required before a bank may have a branch there, 12 U.S.C. § 24(Seventh); letter of Gibbs Lyons, Deputy Comptroller (Feb. 27, 1937) (copy attached); (4) small business investment companies, 15 U.S.C. § 681; (5) bank service companies, 12 U.S.C. § 1861-67; (6) a bank to be acquired (stock to be held for a "fleeting instant"), 12 U.S.C. § 24 (Seventh); letter of Peter Liebesman, Acting Director, Legal Advisory Services Division (July 24, 1981) (copy attached); (7) membership corporations organized to perform services for the bank, 12 U.S.C. § 24(Seventh); OCC Interpretive Letter No. 423; Letters of Peter Liebesman, Assistant Director, Legal Advisory Services Division (Dec. 13, 1983; Jan. 26, 1981) (copies attached); (8) operating subsidiaries, 12 U.S.C. § 24(Seventh); 12 C.F.R. § 5.34; (9) community development corporations, 12 U.S.C. § 24(Eighth); OCC Interpretive Ruling 7.7480, 12 C.F.R. § 7.7480; or (10) in a debt-previously-contracted context, 12 U.S.C. § 24(Seventh); letter of Richard V. Fitzgerald, Director, Legal Advisory Services Division (Feb. 8, 1980). The OCC has not permitted national banks to purchase stock in a corporate REIT, nor does there appear to be a statutory basis for doing so.

You suggest that a bank should be permitted to purchase shares of a corporate REIT because the rights and liabilities of a REIT shareholder are essentially the same as those of a limited partner, and the OCC has previously permitted national banks to become limited partners, *see, e.g.*, OCC Interpretive Letter No. 423 (Apr. 11, 1988) and/or because the rights and liabilities of a REIT shareholder are essentially the same as those of an investor in an investment company and the OCC has permitted national banks to purchase shares in investment companies, *see* OCC Banking Circular No. 220. We cannot agree because, first, as indicated above, we conclude that a national bank may not invest in the limited partnership you describe. Furthermore, the letters you cite do not address the issue of the prohibition in 12 U.S.C. § 24(Seventh) against purchasing stock nor have you provided any indication as to how or why the purchase of shares of stock in a corporate REIT is "otherwise permitted by law," and should therefore be exempt from that prohibition. Accordingly, we conclude that a national bank may not purchase corporate stock in a corporation that might be formed should the Partnership change to a corporate form.

I trust that this has been responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

436—July 19, 1988

This is in response to your letter inquiring into the permissibility of *** (PR) establishing a national bank limited to trust powers, to be called *** (Trust Company). This letter was initially filed with the OCC's *** District Office. On November 13, 1987, the District Office granted you a charter provided that all activities with *** (UWS), your securities affiliate, be suspended until the Glass-Steagall issues could be reviewed by the OCC. Your proposal has been referred here for reply. We have concluded that you may proceed with your proposal without further suspending activities with your securities affiliate.

Background

PR is an investment advisor which engages in financial planning, investment advice, and the management of client funds. PR is registered under the Investment Advisers Act of 1940, 15 U.S.C. § 80b-1 *et. seq.* PR is also a managing general partner and sponsor of two investment funds. These investment funds are exempt from registration under the Investment Company Act of 1940 because there are no more than one hundred beneficial owners. Additionally, the funds are exempt from the registration provisions of the Securities Act of 1933 because the shares of the investment funds are not publicly offered.

The investment funds are formed as limited partnerships and are designed to provide PR's clients with an asset

diversification vehicle. Each fund (partnership) is limited to seventy-five limited partners and the partnerships are only offered to clients of PR. Once deciding to become a limited partner in one of the funds (partnerships), an investor must personally sign the partnership documents. New limited partners can be admitted, and existing limited partners can add money (or withdraw completely) from the investment funds only at the end of each calendar quarter. Since their inception, the "technology" and "convertible" funds have averaged five to six additional limited partners per quarter and less than one withdrawal per quarter. The shares in the limited partnerships are privately offered through UWS, a registered broker-dealer affiliated with PR. UWS receives no fee or commission for its services.

UWS engages in a limited brokerage business. In addition to privately placing the limited partnership interests of PR's investment funds, it acts as agent in connection with the offer and sale of interests in partnerships which engage in real estate holding and development, oil and gas exploration and development, venture capital and other tax-advantaged investments, and securities of small corporations. All of UWS' activities are conducted on a private placement basis. It does not act as broker or dealer in any public offering. However, UWS may, at a future date, engage in discount brokerage activity, namely, the purchase and sale of securities as agent for its customers.

The Trust Company plans to exercise full fiduciary powers. However, it will not accept deposits other than in an agency or fiduciary capacity, it will not hold cash or securities of customers (these instead will be held by another custodian bank), and it will not engage in any lending activities. The Trust Company will not purchase for its own account or for any account over which it exercises sole investment discretion any securities placed by UWS or any limited partnership interests in the investment funds. The Trust Company will have no affiliation with any other bank or bank holding company. The proposed directors of the Trust Company are currently officers, directors or employees of PR. Additionally, two of the proposed directors are also directors of UWS. However, you have indicated that no directors, officers, or employees of the Trust Company are directors, officers, employees, or partners of any other company engaged principally or primarily in the offer or sale of securities.

Discussion

Sections 20 and 32 of the Glass-Steagall Act, 12 U.S.C. §§ 377 and 78, prohibit corporate and individual affiliation between a member bank and any entity engaged primarily or principally in the "issue, flotation, underwriting, public sale, or distribution" of securities.

With regard to PR, there are no Glass-Steagall Act problems for three reasons. First, the Board of Governors of the Federal Reserve System has determined that:

> Section 32 of the Glass-Steagall Act does not prohibit persons primarily engaged in the securities business, from serving on the board of directors or on committees appointed by the board of directors of a limited-purpose trust company that does not offer significant commercial bank services. (Board Ruling 3-932, Federal Reserve Regulatory Service, Vol. 1, p. 388.)

In the present case, the Trust Company will be exercising only fiduciary powers. It will not be making loans or taking deposits. In the Federal Reserve Board's phrase, the Trust Company will not be offering "significant commercial bank services." This Federal Reserve Board ruling applies to the PR proposal. Moreover, the case law establishes that sections 32 and 20 should be construed in the same way, *see, e.g.*, *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 468 U.S. 207, 219 (1984) (Schwab) ("sections 32 and 20 contain identical language, were enacted for similar purposes, and are part of the same statute") and *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 839 F.2d 47, 53 (2d Cir. 1988) *cert. denied* 56 U.S.L.W. 3843 (June 14, 1988), (No. 87-1513) ("an established interpretation of the language of one section is important in interpreting the language of the other"). In short, the Trust Company in question is not affected by sections 20 and 32 of the Glass-Steagall Act.

Second, the interests in the PR investment funds are privately placed. Such private placement activity does not constitute the "issue, flotation, underwriting, public sale or distribution" of securities since these terms "all refer to the widespread marketing of specific issues of new securities in which the dealer trades as principal for his own profit." *Securities Industry Association v. Board of Governors of the Federal Reserve System*, 716 F.2d 92, 96 (2d Cir. 1983), *aff'd* 468 U.S. 207 (1984). Therefore, PR is not engaged in a covered activity within the meaning of sections 20 and 32.

Finally, assuming *arguendo* that PR is engaged in a section 20 or 32 activity, it is not primarily or principally engaged in that activity. PR is essentially an investment advisor to high net worth, sophisticated investors. PR manages approximately 600 million dollars for investors and of this amount less than 5 percent or 27 million dollars represent monies managed in the "technology" and "convertible" investment funds. The management fees generated by these funds account for only 6.43 percent or $225,153 of PR's total revenue of 3.5 million dollars. Also, of the 266 accounts managed by PR, approximately 30 percent are limited partners in the "technology" and "convertible" funds. Accordingly, PR's involvement in

these funds is not its primary or principal activity. Hence, sections 20 and 32 of the Glass-Steagall Act would not prohibit the proposed affiliation.

With regard to UWS, it only engages in private placement activity; in the future it may engage in discount brokerage activity. Both of these services have been held to be permissible for banks. *See, e.g., Securities Industry Association v. Comptroller of the Currency,* 557 F.Supp. 252 (D.D.C. 1983), *aff'd per curiam,* 758 F.2d 739 (D.C. Cir. 1985), *cert. denied,* 106 S.Ct. 790 (1986) (brokerage issue) *rev'd* 107 S.Ct. 750 (1987) (branching issue); *Securities Industry Association v. Board of Governors of the Federal Reserve System,* 807 F.2d 1052 (D.C. Cir. 1986) (Bankers Trust II); Interpretive Letter No. 403 dated December 9, 1987, by J. Michael Shepherd, Senior Deputy Comptroller for Corporate and Economic Programs, *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,627; Interpretive Letter No. 380 dated December 29, 1986, by Judith A. Walter, Senior Deputy Comptroller for Administration, *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,604; and Interpretive Letter No. 32 dated December 9, 1977, by John G. Heimann, Comptroller of the Currency, *reprinted in* Fed. Banking L. Rep. (CCH) ¶ 85,107. Hence, the activity which UWS engages in would not violate section 16 of the Glass-Steagall Act if done by a bank. Since UWS is engaged in a bank-permissible activity under section 16 of the Glass-Steagall Act, no problem is posed by sections 20 or 32 of that Act.

I trust this is responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

437—July 27, 1988

This is in response to your June 21, 1988 letter requesting an opinion on whether national banks may engage in selling a tax auditing representation service to their customers.

As described in the material you sent in with your request and in a subsequent conversation with *** of this Office, the *** (ATR) plan is offered to customers in order to represent them before the Internal Revenue Service in the event the customer's tax returns are audited. You inquire as to whether national banks may become "associates" under the plan. The extent of the national bank's involvement as an associate would be to identify customers who are interested in the service, obtain the fee from them, and then forward the customer's fee and completed application form to ATR in California. Promotional materials would be placed on the banks' premises, and would be mailed to customers with the banks' monthly statement. The bank would receive a fee for each sale.

OCC Interpretive Ruling 7.7430 provides:

> While a national bank may not serve as an expert tax consultlant, it may assist its customers in preparing their tax returns. (12 C.F.R. § 7.7430.)

Under this Ruling, the OCC considers one an "expert tax consultant" if, by study and training in the laws of taxation and because of his special knowledge, he is able to form definite and authoritative opinions concerning the application of the tax laws as they apply to the affairs of his clients.

Since your plan does not involve the interpretation of tax statutes by a national bank, it is authorized under Interpretive ruling 7.7430. Offering such a service to a bank's customers is a permissible extension of a national bank's authority to assist its customers in preparing their tax returns.

Further, the role of a national bank contemplated by your proposal would not involve the bank in consultation or representation of any kind; a national bank's function is analogous in this situation to that of a finder, wherein the bank merely will introduce the seller of the service to potential buyers. The bank will take no part in negotiations between ATR and the customers. Under Interpretive Ruling 7.7200, 12 C.F.R. § 7.7200, national banks may act as a finder between buyers and sellers and may take a fee as compensation for the service. The Comptroller's Office has previously ruled that national banks may act as finders in a wide variety of activities, including travel agency-related services and the purchase and sale of businesses. *See, e.g.,* Letter dated 5/9/88 by Paul Allan Schott, Chief Counsel (unpublished).

The above analysis is based on the facts as reflected in this letter; if circumstances change or differ from those presented, a different analysis may result. I trust that this is responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services

* * *

438—January 15, 1988

This is in response to your January 7, 1988 letter regarding the Bank's plan, approved by this Office in Robert J. Herrmann's letter of December 30, 1987, to establish a collective investment trust (Trust) for the collective investment of individual retirement account (IRA) trust assets

exempt from taxation under Section 408 of the Internal Revenue Code of 1986, as amended (IRC). You have requested that this Office modify the terms of its approval of the Trust, as described below.

One of the issues discussed in this Office's letter of approval concerned the Bank's plan to charge the Trust an ongoing fee of a percentage of net assets on an annualized basis. In the case of participating trusts, this fee may not be consistent with 12 C.F.R. § 9.18(b)(12). Our prior letter stated, on page 6, that "you [had] represented that this provision does not present a problem for IRA funds exempt from taxation under Section 408 of the IRC . . ." and reflected our understanding that a potential violation of the above regulation would arise only in connection with certain pension or profit-sharing trusts maintained in conformity with Section 401 of the IRC. However, you stated in your January 7 letter that because the Bank's current fee schedule applicable to IRA funds has various break points applicable to larger asset sizes, and because the Bank from time to time might negotiate fees for large IRA funds for individual account management, it is conceivable that the above regulation could present a problem for IRA funds exempt from taxation under Section 408 of the IRC as well. You have therefore requested that the Office waive the restrictions pertaining to fee charges applicable to all assets deposited into the Trust, including those exempt from taxation under Section 408 of the IRC. The Bank, as trustee, would continue to make the representations numbered 1 through 7 on page 7 of our prior letter applicable to all assets in the Trust.

Based upon your assurance that all the representations noted above will be applicable to all assets in the Trust, and on the understanding that all other provisions and conditions of our prior letter remain unchanged, this Office will permit the trustee to charge the above-described fee as applicable to all assets deposited into the Trust, including those exempt from taxation under Section 408 of the IRC.

Charles M. Horn
Director
Securities and Corporate Practices Division

* * *

439—February 5, 1988

Your letters of June 9 and July 24, 1986 to Deputy Chief Counsel Robert B. Serino have been referred to me for reply. You requested clarification whether each of the 962 participants in a voting trust, representing beneficial ownership of approximately 71.28 percent of *** outstanding stock, is considered to be a "principal shareholder" of subsidiary national banks[1] for purposes of the lending limits and other requirements of 12 U.S.C. § 375b and its implementing regulations — 12 C.F.R. Part 31 (national banks) and 12 C.F.R. Part 215 (member banks) (Regulation O).

You stated that you have been advised by the Southwestern District Office's staff that each of the trust's beneficiaries is a principal shareholder of ***'s national bank subsidiaries because all are acting in concert to control ***'s voting stock held in trust. You posited that it is impractical to consider all 962 participants to be principal shareholders since none individually owns as much as 5 percent of *** stock (some only hold very small interests) and the two trustees control the voting of all of the shares held in the trust. You also enclosed a copy of the voting trust agreement defining the trust's purpose as uniting the voting power to direct ***'s affairs.

Under the terms of the agreement, although the trustees generally have voting power over ***'s shares held in trust,[2] subject only to certain notice requirements, either or both trustees may be removed (apparently, with or without cause) by beneficiaries representing "60 percent in interest of the Stockholders." If only one is removed, or resigns, sole power is vested in the remaining trustee. However, if both are removed or resign, trust beneficiaries representing "a majority in interest of the Stockholders" may select the successor trustee. In making decisions to remove or select trustees, each beneficiary is entitled to one vote for each share of ***'s stock owned by the beneficiary and contributed to the trust. Further, under the procedure set forth in the voting trust agreement, if the beneficiaries fail to select a successor trustee within a 30-day period, the beneficiary who owns the largest percentage of ***'s shares held in trust will make the selection.

We understand that this trust expanded to its current level of 962 participants only because voting trust certificates representing ownership of ***'s common stock were issued to the targets' shareholders in merger transactions. Consequently, the trust's 962 participants appear to consist primarily of (1) the core group who formed the trust for a control purpose and (2) those individuals who were issued voting trust certificates in exchange for stock owned in the targets of merger transactions.

As you are aware, even though individually no one beneficiary of a voting trust which holds in the aggregate over 10 percent of a national bank's or its parent bank holding company's voting stock may be a principal share-

[1]It is our understanding that *** is a bank holding company which owns all or substantially all of the outstanding voting stock of the *** and the ***

[2]Under the terms of the trust instrument, if the trustees do not agree on a voting decision, the beneficiaries have the power to determine how the shares held in trust will be voted on that issue. However, if this should occur, it appears that, after resolution of the issue, exclusive voting power reverts once again to the trustees.

holder for purposes of Regulation O, all may be deemed to be principal shareholders if they are acting in concert to control the shares held in trust. However, the substantial number who became beneficiaries of this trust because they accepted certificates as consideration in merger transactions may be passive investors and, absent additional evidence, it may be unreasonable to presume that, by joining the trust under these circumstances, these beneficiaries also agreed to act in concert to further the trust's control purpose. Even though beneficiaries who were part of the group who affirmatively formed the trust may be considered to be acting in concert (as opposed to those presumably passive investors described above), we have determined that a "control" distinction based on a person's intent in becoming part of the voting trust not only may be inequitable and incongruous, but also is administratively unworkable.

Notwithstanding the foregoing conclusion, certain beneficiaries of this trust may be principal shareholders because they own a sufficient percentage of the shares held in trust to be deemed to be in a position of control for purposes of this case. Since the beneficiaries as a group have the power to remove and select trustees and, in making these decisions, to vote in proportion to their ownership of stock held in trust, a beneficiary who controls the trust may be able to influence trustee voting decisions of ***'s shares through concomitant control of beneficiary removal and selection actions.[3] Moreover, the beneficiary who owns the largest percentage of ***'s shares held in trust may be able to influence trustee voting decisions because this individual will select the successor trustee if the beneficiaries as a group fail to do so within a 30-day period. Clearly, if a beneficiary is in a position to control the trust, he or she is a principal shareholder under the Regulation O definition as that beneficiary indirectly controls the over 70 percent of ***'s shares held in trust.

Therefore, for the reasons discussed above, we conclude that, based on the unusual facts of this case, the beneficiary who owns the largest percentage of ***'s shares held in trust is a principal shareholder of ***'s subsidiary national banks for purposes of Regulation O. However, no other beneficiary of this voting trust is a principal shareholder of ***'s national bank subsidiaries unless the beneficiary (or beneficiaries acting in concert) is deemed to control the trust under one of the following tests:

(1) A beneficiary (or beneficiaries acting in concert) controls the trust if the beneficiary (or group) owns, controls, or has the power to vote 25 percent or more of ***'s voting stock held in trust; or

(2) A beneficiary (or beneficiaries acting in concert) is rebuttably presumed to control the trust if the beneficiary (or group) owns, controls, or has the power to vote more than 10 percent of ***'s voting stock held in trust <u>and</u> no other person (or group) owns, controls, or has the power to vote a greater percentage of the stock held in trust.

We note also that the voting trust's trustees are principal shareholders of ***'s subsidiary national banks for purposes of Regulation O since they vote ***'s securities held in trust. Moreover, any of ***'s directors or executive officers who are also beneficiaries of the trust may be independently subject to Regulation O's applicable lending restrictions as a result of their management positions even though they may not be principal shareholders under this opinion.

You are advised that our conclusion is solely based on and limited to our understanding of the facts of this case. We hope this information is responsive to your request and we apologize for the delay in responding to your letters.

Donald N. Lamson
Assistant Director
Securities and Corporate Practices Division

* * *

440—February 17, 1988

This is in response to your letter of January 14, 1988 in which you requested the OCC's no objection position regarding the application of the exemption to 12 C.F.R. Part 16, found at 12 C.F.R. § 16.4(a), to the issuance of stock by *** (Trust) to its sole shareholder (Subsidiary), a wholly owned subsidiary of ***.

In your letter, you posed three questions: (1) whether Part 16 applies to the issuance of stock by a nationally chartered trust company; (2) whether a trust company may rely on the 12 C.F.R. § 16.4(a) *per se* exemption to the offering circular requirements of 12 C.F.R. Part 16 when it issues stock to its sole shareholder; and (3) whether the OCC will accept your letter as a notice of nonpublic sale under 12 C.F.R. § 16.5(f). It is our opinion that the offering circular requirements of Part 16 apply to trust companies but that, under the limited circumstances outlined below, *** is *per se* exempt from those requirements.

You stated that Trust is wholly owned by Subsidiary, which in turn is wholly owned by *** Trust will issue its stock only to Subsidiary. Subsidiary will meet the investor sophistication, access to information, manner of offering, number of purchasers, and limitation on disposition

[3]For purposes of this case, it is not necessary to decide, nor do we decide, if this same conclusion would be reached if the beneficiaries of this trust lacked the ability to remove and select trustees.

requirements of 12 C.F.R. § 16.5. The literal language of 12 C.F.R. § 16.4(a) does not *per se* exempt Trust's stock issuance to Subsidiary from the offering circular requirements of Part 16. § 16.4(a) only provides a *per se* exemption when a bank issues securities to its parent bank holding company, as defined in 12 U.S.C. § 1841, and Subsidiary does not fall within the 12 U.S.C. § 1841 definition.

Although the language of Part 16 is silent on the matter, it is our view that the offering circular requirements of Part 16 apply to the issuance of stock by a nationally chartered trust company. Such an application of the requirements of Part 16 is reasonable in light of the fact that Congress has given the OCC the authority to charter and limit the activities of trust companies. *See* 12 U.S.C. § 27(a). The OCC adopted Part 16 in order to provide prospective investors with all material facts and information relating to the business operations and financial conditions of banks which are seeking to obtain funds through the public offer and sale of securities. 42 Fed. Reg. 2200 (Jan. 10, 1977). No logical reason exists for failing to provide prospective investors with the same information with respect to trust companies which are seeking to obtain funds through securities offerings.

Since the offering circular requirements of Part 16 apply to trust companies, trust companies should also qualify for the 12 C.F.R. § 16.4(a) *per se* exemption to the offering circular requirements of Part 16 when they issue stock in reliance upon 12 C.F.R. § 16.5 and the issuance is substantially identical to a bank's issuance of stock to its parent bank holding company. Based on the particular circumstances described above, we believe that Trust's issuance of stock qualifies for the 12 C.F.R. § 16.4(a) *per se* exemption. The policy behind the existence of the *per se* exemption, i.e., that there is no need to impose investor protection requirements on a bank's sale of securities to its parent, applies equally in this case. Therefore, Trust does not need to comply with the offering circular requirements of Part 16. Please be aware, however, that we reserve the right to take a different position if any institutions or individuals other than Subsidiary receive Trust stock, or if other facts indicate that the transaction should be subject to 12 C.F.R. Part 16.

We do not find it necessary to review Trust's letter as a notice of nonpublic sale because, as stated above, Trust's issuance of stock to Subsidiary is *per se* exempt from the offering circular requirements of Part 16.

If you should have any further questions, please contact the undersigned at (202) 447-1954.

Elizabeth S. Malone
Attorney
Securities & Corporate
Practices Division

* * *

441—February 17, 1988

This confirms receipt of your letters dated November 6, 1986, October 29, 1987, and January 13, 1988, regarding the agreement between the Bank and ***. You requested that this Office issue a no-objection position letter regarding an agreement between the Bank and *** whereby *** will offer and sell securities products to Bank customers at branches of the Bank. The Bank will receive a percentage of *** commissions as rent for the space provided to ***'s registered representatives. Upon review of the proposed agreement, as described in the above-referenced letters and as you represented it in your subsequent telephone conversations with the undersigned, this Office will not object to the Bank's participation in the program.

It is our understanding that under the agreement, *** will place its registered representatives in branches of the Bank and the registered representatives will offer, sell and promote to the Bank's customers and potential customers securities products. *** is a broker-dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc. (NASD). The securities products to be offered and sold by *** are to be determined by mutual agreement of *** and the Bank and include mutual funds, municipal bond funds and unit investment trusts, Government National Mortgage Association (GNMA) funds and unit investment trusts, and variable annuities (hereinafter referred to as "securities products"). *** will act only as a broker, and will not engage in any principal or market-making activities (hereinafter referred to as "securities activities"). *** will effect transactions as agent for fiduciary accounts, including fiduciary accounts for which the Bank retains investment discretion, pension funds and profit sharing plans, individual retirement accounts, Keogh plans, and trust assets administered under the Uniform Gifts to Minors Act, but will not accept any discretionary accounts, shall not be involved in any underwriting functions for any of the products, and none of the products shall involve securities issued by the Bank or its affiliates.

The Bank will provide an office or appropriate location for use by one registered representative in each branch of the Bank which shall be registered with the NASD as a branch office of ***. Each such location shall be in an area of the branch to be designated by the Bank, but need not be separated by a wall from bank operations. Appropriate signs or labelling on or near the desk or in the office itself will distinctively identify *** as a separate and distinct entity not affiliated with the Bank.

*** shall provide such number of registered representatives as the Bank and *** agree. Each *** branch office will be staffed by a registered representative of ***. Such registered representative may be assigned to more than

one branch office. If assigned to more than one branch office, a registered representative shall be present at an assigned branch on specified days at specified hours. Registered representatives will be selected by ***, subject to the Bank's right to disapprove the placement or retention of any particular sales agent in branches, and shall devote their full time in the offer, sale and promotion to the Bank's customers and potential customers of the securities products. *** shall retain sole control of and authority over each registered representative and the remuneration paid to the registered representatives. *** shall be solely responsible for all training and supervision of its registered representatives. *** registered representatives shall not be employees of the Bank and the Bank will not be responsible for supervising or compensating *** registered representatives, who will be under the exclusive control and supervision of ***. *** registered representatives will he supervised by registered principals or representatives of ***.

None of the employees of the Bank will be engaging in the securities activities to be carried out by *** and its registered representatives. The role of Bank personnel will be strictly limited to introducing customers to the *** registered representative. Bank employees will be instructed not to discuss or describe the products to be provided by *** to customers or potential customers. The Bank's employees shall direct any customer or potential customer with questions regarding the products to a registered representative at a branch, and if a registered representative is unavailable, the Bank employee shall provide a telephone number to the customer or potential customer for calling a registered representative, take a message from the customer or potential customer to be delivered to a registered representative, or make an appointment for the customer or potential customer to meet a registered representative at a branch in the future. In the absence or event of unavailability of a registered representative, Bank employees may also direct customers or potential customers or communications therefrom to a sales manager or customer representative of ***.

The registered representative will effect transactions as agent for customers in one or more of the securities products being offered. The registered representative may provide standardized advice and recommendations regarding the products being offered, after identifying the customer's investment goals and reviewing the customer's financial status. The Bank will not be involved in ***'s determination as to whether, and on what terms, to sell a particular product to a particular customer. The Bank and its employees will not handle any customer securities or funds, unless securities are deposited by customers in the Bank's safety deposit boxes or funds are automatically deposited or withdrawn. Bank employees may, however, provide assistance in completing any automatic deposit and withdrawal authorization provided with the application, just as Bank employees would provide assistance in any situation where a customer desires to make automatic deposits or withdrawals. By completing this form the customer will authorize the automatic deposit or withdrawal of funds into or from his Bank accounts in order to receive the proceeds of, or pay for, the securities sold by *** After filling out the form, the customer either will forward it to *** or give it to the Bank.

***'s services will be marketed to Bank customers through the efforts of *** and the Bank. The Bank shall provide certain customer information to *** and its sales agents including names, addresses, and telephone numbers of Bank customers. *** and its employees shall be contractually obligated to maintain the confidentiality of all such customer information, and shall utilize such information only in order to provide the securities services. The Bank also may provide to *** limited credit information that would be made available to any other business entity. An introductory letter will be sent to customers printed on branch stationery and mailed by each branch office. This letter may be followed by a telephone call from the *** sales agent.

The Bank in its sole discretion may engage in further marketing efforts to promote the availability of ***'s services, including but not limited to direct mail advertising, in-branch publicity, and statement stuffers announcing the availability of *** services. The Bank shall pay for all costs incurred in marketing efforts unless *** agrees in writing to pay for particular expenses. Advertising and other promotional material will be approved in advance by *** and are to indicate clearly that the products are available to the Bank's customers through ***, a registered broker-dealer, and not through the Bank. The marketing materials will indicate that *** and the Bank are separate, distance, and unaffiliated corporate entities, that the Bank is not a registered broker-dealer, and that the products sold through *** are not insured by the Federal Deposit Insurance Corporation. *** agrees to ensure that all advertising materials conform to the then existing federal and state laws and the requirements applicable to members of the NASD. The Bank shall have no responsibility to assure that the content of advertising materials conform to such then existing regulatory and legal requirements. *** may not engage in any marketing efforts or use any marketing materials without the Bank's prior approval.

The Bank will be paid fifty percent (50%) of the gross commissions received by *** with respect to the sales of products under the arrangement as consideration for the use of the space provided by the Bank to ***'s sales agents. This percentage, however, may be subject to change depending on the products included in the program.

The restricted area of each branch of the Bank in which *** agrees to place its registered representatives and offer its securities products shall, for securities regulatory purposes only, be deemed a branch of *** Accordingly, that segregated area may be inspected during normal business hours by regulatory authorities with which *** is registered or licensed to conduct its securities business, including the Securities and Exchange Commission (SEC), NASD, and California Department of Corporations. The Bank will agree that any books, records, papers, or documents relating to the offering and sale of the securities products, including but not limited to books, records, papers or documents required to be kept or maintained by *** at branches, will similarly be made available for inspection during normal business hours by such regulatory authorities, provided that the Bank shall not be required to keep or maintain such books and records, or provide access to any books, records, papers or documents of the Bank.

Accounts and records of *** and the Bank will not be intermingled. *** alone and not the Bank will be required to comply with all record-keeping requirements under applicable federal and state laws and will maintain proper records, books and accounts regarding the offer and sale of the securities products under the arrangement. *** will agree to make such records available for inspection by the SEC, NASD, and other regulatory authorities as well as by the Bank and its regulatory authorities as deemed necessary by the Bank or required by law.

*** will indemnify and hold harmless the Bank and its directors, officers, agents, employees and affiliates from and against any and all claims, damages, liabilities and costs arising from any act, practice or course of conduct on the part of ***, its sales agents or its directors, officers, agents or employees.

The above-described program conforms in all material respects with activities of national banks previously determined lawful by this Office. It is long settled that national banks may lease their excess office space to others pursuant to 12 U.S.C. §§ 29 and 24 (Seventh). *See, e.g., Wirtz v. First National Bank and Trust Co.*, 365 F.2d 641, 644 (10th Cir. 1966) and letter dated August 4, 1987 from Charles M. Horn, Director, Securities & Corporate Practices Division, to *** and authorities cited therein. This Office also has concluded that, incidental to this power to lease excess office space, national banks may engage in so-called "percentage leases," such as ***'s proposed arrangement with the Bank, where rent is calculated as a percentage of the lessee's gross commission volume or gross income. *See* Interpretive Letter No. 294 from Brian Smith, Chief Counsel (Dec. 2, 1983), *reprinted in* [1983-84 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,438. We note that renting lobby space under a percentage lease is conditioned on the observance of those precautions enumerated in Interpretive Letter No. 294 to "ensure that all aspects of the leasing relationship are in accord with federal banking laws and safe and sound banking practices." Letter from Charles M. Horn, *supra*.

In contrast to other programs approved by this Office, we note that the Bank and *** do not propose to share employees. *Compare id.* Since *** alone will exercise exclusive supervisory control over its employees, the Bank in no respect can be deemed to participate in the sale of securities products. This conclusion is unaltered by the fact that the Bank has the right to engage in selected, limited marketing activities relating to the availability of ***'s brokerage services and that the Bank is providing to its customers physical access to ***'s services. Even if Bank employees were considered under this program to be engaged in securities brokerage activities, it is by now conclusively established that national banks have the authority to provide securities brokerage services. *See Securities Industry Association v. Comptroller of the Currency,* 758 F.2d 739 (D.C.Cir. 1985), *cert. denied,* 106 S.Ct. 750 (1986) (brokerage), *rev'd* 107 S.Ct. 750 (1987) (branching). Such activities also come within national banks' authority to exercise all powers incidental to the business of banking. *See* Letter of Charles M. Horn, *supra,* and authorities cited therein.

We also note that *** will effect securities transactions for fiduciary accounts for which the Bank retains investment discretion. We express no opinion as to the permissibility of *** effecting such transactions. However, this letter in no respect may be understood to affect the Bank's continuing fiduciary obligations in the administration of such accounts. Accordingly, the Bank retains ultimate responsibility to ensure that payment to *** of brokerage commissions to effect securities transactions for such fiduciary accounts is consistent with the requirements of 12 C.F.R. Part 9 and other applicable state and federal law. Because *** will pay the Bank 50 percent of the gross commissions generated in connection with such transactions, the Bank, through an opinion of counsel that is not merely conclusory, should satisfy itself that it will: (1) make adequate disclosure to beneficiaries of the fee arrangement with *** through which the Bank will receive 50 percent of gross commissions generated; (2) obtain all necessary consents from trust beneficiaries; (3) ensure that fiduciary accounts achieve best execution in all securities transactions effected through ***; (4) observe all applicable record-keeping requirements; and (5) otherwise fulfill its fiduciary obligations, including its obligation not to engage in self-dealing. *See* OCC Trust Banking Circular No. 23 (1983) and *Decision of the Comptroller of the Currency Concerning an Application by American Commerce National Bank of Austin, Texas, to Establish an Operating Subsidiary to Provide Investment Advice, reprinted in* [1983-84 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 99,732.

Finally, because the Bank will not engage in the offer, purchase or sale of securities, it will not be involved in any securities activities under the Competitive Equality Banking Act of 1987. On the basis of the facts and representations made in your November 6, 1986, October 29, 1987, and January 12, 1988 letters, and in various telephone conversations, we will raise no objection to the Bank's participation in the program. In keeping with this Office's general policy, we will not comment on the appropriateness of specific language contained in documentation to be used in connection with the program.

Because this position is based upon the representations made in the above-referenced letters and conversations, it should be noted that any different facts or conditions might require a different conclusion. In addition, please note that our view is based on current law and regulation and may be subject to revision as future litigation or legislative developments warrant. This office will, of course, continue to monitor the Bank's participation in the program and we reserve the right to modify the views expressed herein or provide additional comments in the future.

Donald N. Lamson
Assistant Director
Securities & Corporate
Practices Division

* * *

442—March 23, 1988

This is in response to your March 15, 1988 letter and related telephone conversations with Securities & Corporate Practices Division staff regarding the Bank's plan, approved by this Office in Robert J. Herrmann's letter of December 30, 1987 as modified by my letter of January 15, 1988, to establish a collective investment trust (Trust) for the collective investment of individual retirement account (IRA) trust assets exempt from taxation under Section 408 of the Internal Revenue Code of 1986, as amended (IRC). You have requested that the Bank be permitted to change one of the representations on which the OCC based its approval of the Trust, as described below.

In a letter dated October 21, 1987, you stated that the Bank "represents that the Trust will qualify as a common trust fund under Section 584 of the [IRC]." You have advised us that the Bank now wishes to represent instead that "the Trust will qualify as a common trust fund under Section 584 of the [IRC] or as a group trust in accordance with Revenue Ruling 81-100."

You explain in your March 15 letter that the Internal Revenue Service (IRS) has recently notified you orally that it is contemplating a negative ruling in response to the Bank's request that the Trust be treated as a common trust fund within the meaning of Section 584. While such a negative ruling has not yet been issued and you are still pursuing the matter with the IRS, you have been advised that the IRS is unlikely to render its decision for up to another two months. In the meantime, of course, the Trust cannot be made available to eligible trust accounts. You would therefore like to revise your earlier representation as stated above in order that the Bank may pursue an alternative method of tax exemption for the Trust without otherwise affecting the OCC's prior approval.

You have expressed the opinion that qualification under Section 584 is not necessary to assure that the Trust would be limited to trust accounts maintained by the Bank and banks that are its affiliates within the meaning of Section 1504 of the IRC. The Declaration of Trust so limits eligibility for the Trust, and the Bank represents that that requirement will not be changed. Neither Mr. Herrman's letter approving the Trust nor my subsequent letter of modification conditioned the OCC's approval on the Trust qualifying as a common trust fund under Section 584. On the contrary, Mr. Herrmann's letter, which discussed the issue of participation by trusts maintained by the Bank's affiliates, stated only that "all banks in the proposed plan will be affiliated within the meaning of IRC § 1504."

You further state that the representation in your October 21, 1987 letter that the Bank will qualify under Section 584 does not add any additional assurance that participation will be limited to trusts maintained by the Bank and its Section 1504 affiliates, because failure to so qualify would not make the Trust a taxable entity. If for any reason the Trust fails to satisfy the requirements of Section 584, it would still be able to avoid taxation because it meets the requirements of Revenue Ruling 81-100.

Based upon your assurance that all other representations made by the Bank remain in effect, and on the understanding that all other provisions and conditions of our prior letters remain unchanged, the OCC will not object to the Bank's representation that the Trust will qualify as a common trust fund under Section 584 of the IRC or as a group trust in accordance with Revenue Ruling 81-100.

Charles M. Horn
Director
Securities & Corporate
Practices Division

* * *

443—June 28, 1988

This responds to your letter of May 10, 1988, in which you asked about the OCC's position regarding renewal of

insider loans which have deteriorated in credit quality since the original extension of credit.

Specifically, you asked whether Regulation O would prohibit renewal of a loan to an executive officer, director, principal shareholder or related interest if the loan satisfied a bank's credit standards at inception but is now regarded internally as a "classified" asset. You noted that 12 C.F.R. 215.4(a) prohibits extensions of credit to defined insiders unless the extension of credit does not involve more than the normal risk of repayment or present other unfavorable features. You further noted that extensions of credit are defined to include the renewal of any loan. 12 C.F.R. 215.3(a). Thus, Regulation O might be interpreted as prohibiting renewal of an insider loan which has become a problem loan. Such interpretation, in your opinion, would unduly restrict a bank's ability to work out the loan.

The OCC agrees and has taken the view that an absolute prohibition against renewal of problem loans to insiders was not intended by 12 U.S.C. 375b(3) or its implementing regulation, Regulation O. An absolute prohibition would impose stricter standards on insider loans than on other loans. This would be inconsistent with the purpose of Section 375b(3) and Regulation O, which is to prevent preferential treatment of insiders.

The OCC's position is that once an insider loan has been identified as posing a credit weakness, it may be renewed only if a comparable troubled loan to a non-insider would be renewed. In other words, banks are expected to apply their usual lending practices regarding problem credits.

Jason D. Redwood
Attorney

* * *

444—August 11, 1988

This responds to the April 14, 1988, letter from *** of your firm to Rod Burgett, Director of Analysis, Southwestern District, and your August 5, 1988, letter to OCC Attorney Bruce S. Oliver. The letters requested an opinion on whether the *** (the Bank) may lawfully acquire newly authorized and issued stock in *** and *** (the other banks). For the reasons and under the circumstances set forth below, we conclude that it may.

We understand from the letters that the Bank first acquired common stock of the other banks in settlement of debts previously contracted (DPC). The Bank subsequently determined that it could prevent or limit further loss on the underlying loan by injecting capital into the other banks (also, the Federal Deposit Insurance Corporation encouraged the Bank to inject capital). The Bank wishes to inject the additional capital by acquiring newly authorized and issued common stock of the other banks. This method of injecting capital would avoid diluting the Bank's equity interest in the other banks. Also, the Federal Reserve Bank of Kansas City has orally advised the Bank that such acquisition of additional stock would not make the Bank a bank holding company under the Bank Holding Company Act so long as (1) the shares are newly issued and (2) they are held by the Bank as DPC shares (the Bank awaits written confirmation from the Federal Reserve Bank of Kansas City, of how the acquisition of shares will be treated under the Bank Holding Company Act).

While Section 16 of the Glass-Steagall Act, 12 U.S.C. § 24 (Seventh), generally prohibits a national bank from purchasing corporate stock, the OCC has permitted national banks to acquire corporate stock in settlement of debts previously contracted and has further permitted a national bank to purchase additional shares of stock in order to prevent or limit additional losses related to the underlying loan. *See* 12 C.F.R. § 1.12 (1988); unpublished letter of John E. Shockey, Deputy Chief Counsel (Feb. 3, 1976) (permitting a national bank which had acquired DPC stock to purchase qualifying shares of resigning directors, to prevent additional loss on the underlying loan by facilitating ultimate sale of all of the stock). The acquisition of common stock that you describe is consistent with that position.

Accordingly, we conclude that the Bank may acquire the additional shares of common stock in the other banks under the circumstances described above, so long as the stock is acquired primarily as a means of preventing or limiting losses related to the underlying loan. Note that we will characterize such additional common stock as DPC stock and will consider it to have been acquired at the time the original DPC stock was acquired.

I trust that this is responsive to your inquiry.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

445—August 16, 1988

Your January 11, 1988 letter asked whether the funds in a receivership for *** Company (Company) are considered "public moneys" so that a national bank may pledge assets to cover such deposits under the authority contained in 12 U.S.C. §90. If such funds are not considered "public moneys", you wondered whether a national bank is authorized to use a letter of credit (rather than a surety bond) to secure the receivership's funds.

As I understand the facts you presented, Company was placed in receivership pursuant to the Missouri Insurance Insolvency Code, Mo. Ann. Stat. §375.535 *et seq.* (Vernon 1968). An order of liquidation was issued by the Circuit Court of Cole County, Missouri, as amended on December 4, 1985, and the receivership is presently considering depositing the funds with national banks in Missouri. You state that if the funds are placed in national banks, the receivership intends to request pledges of collateral from the national banks to secure fully their depository obligations in excess of the insurance coverage offered by the FDIC.

The primary authority for national banks to pledge assets as security for deposits is contained in 12 U.S.C. §90. In addition to authorizing a national bank to secure deposits of federal government funds, this statute permits a national bank to secure the deposits of any state or political subdivision thereof to the same extent as is authorized for state-chartered banks by the law of the state in which such national bank is located. There is, however, no provision within the statute for pledging bank assets to secure private deposits, and it has been held by the courts that a national bank lacks that authority. *Federal Deposit Insurance Corporation v. Tremaine,* 133 F.2d 827 (2d Cir. 1943).

Thus, under 12 U.S.C. §90, two conditions must be met before a national bank in Missouri is permitted to pledge its assets to secure funds deposited from the receivership. First, the deposits to be secured must consist of public funds, i.e., funds deposited by a state, political subdivision, agency, or other governmental instrumentality. Second, state banks must be authorized by Missouri law to pledge their assets to secure the deposits.

The first condition set forth in 12 U.S.C. §90 requires the funds being secured to be public moneys. The Supreme Court of the United States has declared that funds deposited in a federal court which were not reduced to absolute control of the Treasury are not public moneys. *Branch v. United States,* 100 U.S. 673 (1880). To my knowledge, *Branch* has neither been overruled by the Court nor superseded by statute. The reasoning as well as the conclusion in *Branch* have been followed on several occasions. *See Phelps v. Citizens Union National Bank,* 13 F. Supp. 623 (W.D. K.Y., 1936) (deposits of bankruptcy funds made by a federal court; the pledge of securities by the bank deemed an *ultra vires* act).

Some courts have limited *Branch* in order to hold that a national bank may pledge its assets upon the deposit of "public moneys" by <u>state</u> courts. These courts included in the definition of public money funds paid into state courts in actions between private persons. *See Federal Deposit Insurance Corporation v. Tremaine,* 133 F.2d 827 (2d Cir. 1943) (hereinafter cited as *Tremaine*). *But see Eckerson v. Utter,* 7 F. Supp. 201 (S.D. Idaho 1934). In *Tremaine,* the funds paid into the state court were deposited in and secured by a national bank. The bank subsequently failed. The trustee in bankruptcy challenged the state court's right to the securities, arguing the bank lacked the authority to pledge its assets against private deposits. Judge Hand reasoned that whether the money deposited was tax revenue or was simply entrusted to the government or its agent until the passing of a certain time period or the occurrence of a certain event, the purpose of securing deposits by public institutions was the same—the protection of a public resource against the danger of depository insolvency. If there were an insolvency, the deficiency would be paid with funds which, even in the strictest sense, would be public funds. As Judge Hand observed, it makes no monetary difference to the taxpayers whether their money makes up a deficiency to private persons or is used for the general purposes of the government. *Tremaine,* at 830.

Judge Hand distinguished *Branch* by saying the question in that case was whether the government had any interest in the money whatsoever. If it had, thought Hand, the money lost should have been replaced with government revenues. Judge Hand stated "there can be no more purely governmental function than the maintenance of courts and the care and distribution of moneys collected by litigation for wards of the court." *Tremaine* at 829. Judge Hand interpreted the *Branch* decision to stand for the proposition that if the United States was liable for the property, through an express or implied contract, the money would have been public money. Because the court clerk in *Branch* had deposited the funds without the authority of the Secretary of Treasury and without warrant of law, the funds did not become public moneys.

The reasoning in *Tremaine* was used earlier by the Tenth Circuit in *Mermis v. Jackson,* 93 F.2d 579 (10th Cir. 1937). *Mermis* held that, pursuant to the authority contained in the second paragraph of 12 U.S.C. §90, a national bank can pledge its assets to secure deposits of a state district court since all funds which are received by the court clerk by virtue of his office are public funds regardless of whether they are held for the benefit of private persons. The *Mermis* court stated that, at least as to the second paragraph of section 90, the phrase "public money" must be liberally construed to include "...also public money the *legal* title of which is held by the state through its public officer acting in his official capacity for the benefit of private persons." *Mermis* at 584 (emphasis added). This dicta was based on congressional intent, embodied in the second paragraph of section 90, to allow national banks to compete with state banks on equal terms.

The second condition of 12 U.S.C. §90 permits national banks to secure public deposits if state banks have the

authority to secure deposits. Missouri law expressly authorizes the pledging of bank assets to secure public funds. *See* Mo. Ann. Stat. §110.060 (Vernon 1966). Therefore, if public money is defined liberally as the *Tremaine* and *Mermis* courts did, then a good argument can be made in favor of a national bank's authority to secure the receivership funds. This position is strengthened if the Cole County Circuit Court requires pledges on the receivership funds. This argument adopts the holding in *Hood v. Hardesty*, 94 F.2d 26 (4th Cir.), *cert. denied*, 303 U.S. 661 (1938), that the definition of public funds is a federal question, for it appears Missouri's definition of "public funds" would not encompass the receivership's funds. *See* Mo. Ann. Stat. §110.010 (Vernon 1966).

It is my opinion the Comptroller of the Currency would not object to a national bank pledging assets to secure deposits where required by the depositing court. However, this opinion would not be binding on any court regarding the question of whether such a pledge of assets is an *ultra vires* act. Neither would it be determinative in deciding ownership of such pledged assets in the case of failure of the depository bank.

Mo. Stat. Ann. §110.060 also permits state banks to secure funds held under the Bankruptcy Act. In the instant case, funds are not held under the Bankruptcy Act but under the Missouri Insurance Insolvency Code, Mo. Ann. Stat. §375.535 *et seq.* (Vernon 1968). Even though the Company is in receivership and not bankruptcy, an analysis of a national bank's pledging capability under the Bankruptcy Act may be helpful.

In the past, courts generally found bankruptcy estate funds were not public funds and consequently not covered by 12 U.S.C. §90. As a result, the courts determined pledges to secure bankruptcy funds were *ultra vires*. *See, e.g., Phelps v. Citizens Union National Bank*, 12 F. Supp. 623, 625 (W.D. Ky. 1936), *aff'd*, 95 F.2d 763 (6th Cir. 1938). *Cf. Leonard v. Gage*, 94 F.2d 19, 22 (4th Cir.), *cert. denied*, 303 U.S. 653 (1938) (funds of insolvent state bank in hands of receiver are not public funds but merely private funds, so a national bank could not pledge its assets to secure their deposit); *Hood v. Hardesty*, 94 F. 2d 26, 28 (4th Cir.), *cert. denied*, 303 U.S. 661 (1938).

Because bankruptcy estate funds were not considered public funds, in 1938 the following provision was added to the Bankruptcy Act of 1898: "All national banking associations designated as depositories, pursuant to the provisions of this section, are authorized to give such security as may be required." Act of June 22, 1938, ch. 575, §1, 52 Stat. 872, 11 U.S.C. §101 (repealed 1978).

In 1978, the federal bankruptcy laws were completely overhauled. The provision of the new bankruptcy code which replaced section 101 and which covers the deposit and investment of bankruptcy estate funds is 11 U.S.C. §345. Section 345 authorized bankruptcy trustees to deposit or invest bankruptcy estate funds in order to obtain the maximum reasonable return consistent with safety. It also required deposited or invested funds to be secured by the pledge of suitable securities or by a surety bond. *See* 11 U.S.C. §345. However, the statute no longer authorized national banks to pledge securities to secure bankruptcy estate deposits. With the repeal of the express authorization to pledge securities for bankruptcy estate deposits, a national bank's legal power to pledge assets reverted to what it had been before the 1938 amendment, i.e., national banks were not empowered to pledge securities for deposits of private moneys.

To rectify this problem, 11 U.S.C. §345 was amended in 1984. The amendment, codified at 11 U.S.C. §345(c), reads: "An entity with which such moneys are deposited or invested is authorized to deposit or invest such moneys as may be required under this section." Act of July 10, 1984, Title III, Subtitle H, Section 437, 98 Stat. 370. The conference report which accompanied this bill contained no explanation of the amendment. To determine congressional intent, it is therefore necessary to look to S. 445, 98th Cong., 1st Sess. §329 (1983) and its accompanying report. (This bill passed the Senate but was not considered by the House of Representatives.) Section 329 of S. 445 would have amended 11 U.S.C. §345 by adding the language: "All entities with which such moneys are deposited or invested are authorized to deposit or invest such moneys as may be required under this section." As you will note, the language of the Senate bill is almost identical to the language which, one year later, became 11 U.S.C. §345(c). The Senate committee report which accompanied S. 445 explained section 329 by stating: "This amendment makes clear that depositories are authorized to give the security required for deposits of funds from the bankruptcy case as provided under section 345." S. Rep. No. 65, 98th Cong., 1st Sess. 75 (1983).

Because the language of S. 445 is in essence identical to that which became law, S. Rep. No. 65 reveals the congressional intent behind the law. That report clearly reflects an intent to authorize national banks to pledge assets to secure bankruptcy estate funds which were deposited in accordance with the Bankruptcy Act. Since bankruptcy estate funds and receivership funds have many functional similarities, the fact that Congress has twice amended the bankruptcy code to permit national banks to secure bankruptcy estate funds adds weight to the argument that national banks should likewise be permitted to pledge assets to secure receivership funds.

Finally, you asked about the bank's purchase of a surety bond or letter of credit to secure private deposits. The Comptroller of the Currency has previously expressed no

objection to a proposal by a national bank to purchase surety bond coverage for private deposits over $100,000. *See* Interpretive Letter No. 323, Richard V. Fitzgerald, Fed. Banking L. Rep. (CCH) ¶85,493. Similarly, the Comptroller of the Currency would not object to a bank's purchase of a standby letter of credit to insure the receivership's funds since a surety bond and a standby letter of credit are functionally equivalent. However, the Comptroller is not prepared to permit a national bank to issue the bank's own standby letter of credit to secure private deposits.

In closing, a national bank should recognize that if it opts to pledge assets in order to obtain the receivership's funds, the amount pledged must be prudent in relation to the size and condition of the bank and consistent with safe and sound banking practices.

Mary Wheat
Senior Attorney
Midwestern District

* * *

Mergers—July 1 to September 30, 1988

Mergers consummated involving two or more operating banks.

There are a number of transactions in this section that do not have an accompanying decision. In those cases the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction had minimal or no adverse competitive effects. The Office found the proposals satisfied its criteria for a transaction that clearly had no or minimal adverse competitive effects.

FIRST AMERICAN NATIONAL BANK,
Knoxville, Tennessee, and The First American National Bank of Jefferson City, Jefferson City, Tennessee

Names of banks and type of transaction	*Total assets*
First American National Bank, Knoxville, Tennessee (17839), with	$1,184,582,000
and The First American National Bank of Jefferson City, Jefferson City, Tennessee (11479), with	64,463,000
merged July 1, 1988, under charter and title of the former. The merged bank at date of merger had	1,249,045,000

* * *

THE FIRST NATIONAL BANK OF PENNSYLVANIA,
Meadville, Pennsylvania, and The National Bank of Corry, Corry, Pennsylvania

Names of banks and type of transaction	*Total assets*
The First National Bank of Pennsylvania, Meadville, Pennsylvania (12), with	$ 820,652,000
and The National Bank of Corry, Corry, Pennsylvania (4823), with	24,603,000
merged July 1, 1988, under charter and title of the former. The merged bank at date of merger had	841,577,000

* * *

MIAMI BANK, NATIONAL ASSOCIATION, DAYTON,
Fairborn, Ohio, and The First National Bank, Miamisburg, Ohio

Names of banks and type of transaction	*Total assets*
Miami Bank, National Association, Dayton, Fairborn, Ohio (9675), with	$ 173,138,000
and The First National Bank, Miamisburg, Ohio (3876), with	142,053,000
merged July 1, 1988, under charter of the former and title "Star Bank, National Association, Dayton" in Fairborn. The merged bank at date of merger had	315,191,000

* * *

RANCH NATIONAL BANK,
Scottsdale, Arizona, and Norwest Capital Management & Trust Co., Scottsdale, Arizona

Names of banks and type of transaction	*Total assets*
Ranch National Bank, Scottsdale, Arizona (18295), with	$ 17,852,000
and Norwest Capital Management & Trust Co., Scottsdale, Arizona, with	1,824,000
merged July 1, 1988, under charter of the former and title "Norwest Bank Arizona, National Association." The merged bank at date of merger had	19,676,000

* * *

FIRST OF AMERICA BANK-LIBERTYVILLE, NATIONAL ASSOCIATION,
Libertyville, Illinois, and The Premier Bank of Vernon Hills, Vernon Hills, Illinois

Names of banks and type of transaction	*Total assets*
First of America Bank-Libertyville, National Association, Libertyville, Illinois (15594), with	$ 120,068,000
and The Premier Bank of Vernon Hills, Vernon Hills, Illinois, with	23,504,000
merged July 11, 1988, under charter and title of the former. The merged bank at date of merger had	143,460,000

* * *

THE ROYALL NATIONAL BANK OF PALESTINE,
Palestine, Texas, and The American Bank, Palestine, Texas

Names of banks and type of transaction	Total assets
The Royall National Bank of Palestine, Palestine, Texas (7170), with	$ 61,333,000
and The American Bank, Palestine, Texas, with	20,789,000
merged July 14, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

TEXAS BANK NORTH, NATIONAL ASSOCIATION,
San Antonio, Texas, and Texas Bank, San Antonio, Texas

Names of banks and type of transaction	Total assets
Texas Bank North, National Association, San Antonio, Texas (18350), with	$ 6,939,000
and Texas Bank, San Antonio, Texas, with	60,054,000
merged July 14, 1988, under charter and title of the former. The merged bank at date of merger had	66,791,000

* * *

VALLEY NATIONAL BANK OF NORTH MANKATO,
North Mankato, Minnesota, and Otisco State Bank, Otisco, Minnesota

Names of banks and type of transaction	Total assets
Valley National Bank of North Mankato, North Mankato, Minnesota (15131), with	$ 56,725,000
and Otisco State Bank, Otisco, Minnesota, with	16,670,000
merged July 15, 1988, under charter and title of the former. The merged bank at date of merger had	73,376,000

* * *

WESTSTAR BANK, A NATIONAL ASSOCIATION,
Bartlesville, Oklahoma, and Union Bank and Trust, Bartlesville, Oklahoma

Names of banks and type of transaction	Total assets
Weststar Bank, A National Association, Bartlesville, Oklahoma (6258), with	$ 318,907,000
and Union Bank and Trust, Bartlesville, Oklahoma, with	115,430,000
merged July 21, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

NCNB NATIONAL BANK OF FLORIDA,
Tampa, Florida, and USBank, St. Petersburg, Florida

Names of banks and type of transaction	Total assets
NCNB National Bank of Florida, Tampa, Florida (17775), with	$9,660,417,000
and USBank, St. Petersburg, Florida, with	48,662,000
merged July 22, 1988, under charter and title of the former. The merged bank at date of merger had	9,709,079,000

* * *

COMMUNITY NATIONAL BANK,
Shamokin, Pennsylvania, and The Nanticoke National Bank, Nanticoke, Pennsylvania

Names of banks and type of transaction	Total assets
Community National Bank, Shamokin, Pennsylvania (5625), with	$ 50,565,000
and The Nanticoke National Bank, Nanticoke, Pennsylvania (7406), with	46,618,000
merged July 25, 1988, under charter of the former and title "Guaranty Bank, National Association." The merged bank at date of merger had	100,183,000

* * *

HIBERNIA NATIONAL BANK,
New Orleans, Louisiana, and National Fidelity Bank, Shreveport, Louisiana

Names of banks and type of transaction	Total assets
Hibernia National Bank, New Orleans, Louisiana (13688), with	$5,199,697,000
and National Fidelity Bank, Shreveport, Louisiana (18450), with	10,506,000
merged July 28, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

AUBURN BANK OF COMMERCE, NATIONAL ASSOCIATION,
Auburn, California, and Nevada County National Bank, Grass Valley, California

Names of banks and type of transaction	Total assets
Auburn Bank of Commerce, National Association, Auburn, California (17641), with	$ 24,820,000
and Nevada County National Bank, Grass Valley, California (16839), with	17,428,000
merged July 29, 1988, under charter of the former and title "The Bank of Commerce, National Association." The merged bank at date of merger had	42,293,000

* * *

THE BANK OF CALIFORNIA, NATIONAL ASSOCIATION
San Francisco, California, and The Mitsubishi Bank of California, Los Angeles, California

Names of banks and type of transaction	Total assets
The Bank of California, National Association, San Francisco, California (21541), with	$4,725,738,000
and The Mitsubishi Bank of California, Los Angeles, California, with	1,546,569,000
merged July 29, 1988, under charter and title of the former. The merged bank at date of merger had	6,272,307,000

* * *

METROPOLITAN NATIONAL BANK,
Farmers Branch, Texas, and Sherry Lane National Bank, Dallas, Texas

Names of banks and type of transaction	Total assets
Metropolitan National Bank, Farmers Branch, Texas (17031), with	$ 87,864,000
and Sherry Lane National Bank, Dallas, Texas (17994), with	36,006,000
merged July 29, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

NCNB TEXAS NATIONAL BANK,
Dallas, Texas, and First RepublicBank Galveston, National Association, Galveston, Texas, and First RepublicBank Greenville, National Association, Greenville, Texas, and First RepublicBank Harlingen, National Association, Harlingen, Texas, and First RepublicBank Dallas, National Association, Dallas, Texas, and First RepublicBank Mount Pleasant, National Association, Mount Pleasant, Texas, and First RepublicBank Odessa, National Association, Odessa, Texas, and First RepublicBank Houston, National Association, Houston, Texas, and First RepublicBank Stephenville, National Association, Stephenville, Texas, and First RepublicBank San Antonio, National Association, San Antonio, Texas, and First RepublicBank Abilene, National Association, Abilene, Texas, and First RepublicBank Temple, National Association, Temple, Texas, and First RepublicBank Tyler, National Association, Tyler, Texas, and First RepublicBank Austin, National Association, Austin, Texas, and First RepublicBank Wichita Falls, National Association, Wichita Falls, Texas, and First RepublicBank Brownwood, National Association, Brownwood, Texas, and First RepublicBank Cleburne, National Association, Cleburne, Texas, and First RepublicBank Henderson, National Association, Henderson, Texas, and First RepublicBank Lubbock, National Association, Lubbock, Texas, and First RepublicBank Conroe, National Association, Conroe, Texas, and First RepublicBank Midland, National Association, Midland, Texas, and First RepublicBank Mineral Wells, National Association, Mineral Wells, Texas, and First RepublicBank Corsicana, National Association, Corsicana, Texas, and First RepublicBank Richmond, National Association, Richmond,

Texas, and First RepublicBank Denison, National Association, Denison, Texas, and First RepublicBank Waco, National Association, Waco, Texas, and First RepublicBank El Paso, National Association, El Paso, Texas, and First RepublicBank Williamson County, National Association, Austin, Texas, and First RepublicBank Ennis, National Association, Ennis, Texas, and The National Bank of Fort Sam Houston, San Antonio, Texas, and First RepublicBank Fort Worth, National Association, Fort Worth, Texas, and First RepublicBank Jefferson County, Beaumont, Texas, and First RepublicBank Clifton, Clifton, Texas, and First RepublicBank A & M, College Station, Texas, and First RepublicBank Forney, Forney, Texas, and First RepublicBank Hillsboro, Hillsboro, Texas, and First RepublicBank Lufkin, Lufkin, Texas, and First RepublicBank Malakoff, Malakoff, Texas, and First RepublicBank Paris, Paris, Texas, and First RepublicBank Victoria, Victoria, Texas

Names of banks and type of transaction	Total assets
NCNB Texas National Bank, Dallas, Texas (21834), with	$ NA
and First RepublicBank Galveston, National Association, Galveston, Texas (1566), with	257,165,000
and First RepublicBank Greenville, National Association, Greenville, Texas (8581), with	85,852,000
and First RepublicBank Harlingen, National Association, Harlingen, Texas (12119), with	213,556,000
and First RepublicBank Dallas, National Association, Dallas, Texas (12186), with	17,085,655,000
and First RepublicBank Mount Pleasant, National Association, Mount Pleasant, Texas (13257), with	141,141,000
and First RepublicBank Odessa, National Association, Odessa, Texas (13608), with	174,996,000
and First RepublicBank Houston, National Association, Houston, Texas (9353), with	2,712,008,000
and First RepublicBank Stephenville, National Association, Stephenville, Texas (12730), with	124,191,000
and First RepublicBank San Antonio, National Association, San Antonio, Texas (14283), with	797,201,000
and First RepublicBank Abilene, National Association, Abilene, Texas (13727), with	218,162,000
and First RepublicBank Temple, National Association, Temple, Texas (14459), with	163,642,000
and First RepublicBank Tyler, National Association, Tyler, Texas (13110), with	610,442,000
and First RepublicBank Austin, National Association, Austin, Texas (4308), with	1,688,329,000
and First RepublicBank Wichita Falls, National Association, Wichita Falls, Texas (13665), with	304,233,000
and First RepublicBank Brownwood, National Association, Brownwood, Texas (4695), with	126,695,000
and First RepublicBank Cleburne, National Association, Cleburne, Texas (13951), with	118,351,000
and First RepublicBank Henderson, National Association, Henderson, Texas (6176), with	128,870,000
and First RepublicBank Lubbock, National Association, Lubbock, Texas (12683), with	528,101,000
and First RepublicBank Conroe, National Association, Conroe, Texas (12809), with	207,680,000
and First RepublicBank Midland, National Association, Midland, Texas (17956), with	659,374,000
and First RepublicBank Mineral Wells, National Association, Mineral Wells, Texas (12669), with	174,415,000
and First RepublicBank Corsicana, National Association, Corsicana, Texas (3506), with	200,642,000
and First RepublicBank Richmond, National Association, Richmond, Texas (10350), with	99,889,000
and First RepublicBank Denison, National Association, Denison, Texas (3058), with	143,514,000
and First RepublicBank Waco, National Association, Waco, Texas (3135), with	716,274,000
and First RepublicBank El Paso, National Association, El Paso, Texas (16506), with	217,709,000
and First RepublicBank Williamson County, National Association, Austin, Texas (16791), with	43,993,000
and First RepublicBank Ennis, National Association, Ennis, Texas (13667), with	96,091,000
and The National Bank of Fort Sam Houston, San Antonio, Texas (13578), with	634,806,000
and First RepublicBank Fort Worth, National Association, Fort Worth, Texas (2349), with	1,956,560,000
and First RepublicBank Jefferson County, Beaumont, Texas, with	240,727,000
and First RepublicBank Clifton, Clifton, Texas, with	82,273,000
and First RepublicBank A & M, College Station, Texas, with	101,039,000
and First RepublicBank Forney, Forney, Texas, with	54,599,000
and First RepublicBank Hillsboro, Hillsboro, Texas, with	68,086,000
and First RepublicBank Lufkin, Lufkin, Texas, with	224,868,000
and First RepublicBank Malakoff, Malakoff, Texas, with	49,588,000
and First RepublicBank Paris, Paris, Texas, with	79,339,000
and First RepublicBank Victoria, Victoria, Texas, with	175,166,000
merged July 29, 1988, under charter and title of NCNB Texas National Bank. The merged bank at date of merger had	

* * *

UNITED JERSEY BANK, NATIONAL ASSOCIATION,
Princeton, New Jersey, and United Jersey Bank/Franklin State, Franklin Township, New Jersey

Names of banks and type of transaction	Total assets
United Jersey Bank, National Association, Princeton, New Jersey (4872), with	$ 770,837,000
and United Jersey Bank/Franklin State, Franklin Township, New Jersey, with	867,713,000
merged July 29, 1988, under charter 4872 and title "United Jersey Bank Central, National Association" in West Windsor Township. The merged bank at date of merger had	1,638,550,000

* * *

BANK OF OKLAHOMA, NATIONAL ASSOCIATION,
Tulsa, Oklahoma, and Bank of Oklahoma Grove, Grove, Oklahoma

Names of banks and type of transaction	*Total assets*
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$1,894,008,000
and Bank of Oklahoma Grove, Grove, Oklahoma, with	43,484,000
merged August 1, 1988, under charter and title of the former. The merged bank at date of merger had	1,934,072,000

* * *

CITIZENS NATIONAL BANK & TRUST OF MUSKOGEE,
Muskogee, Oklahoma, and American Bank of Muskogee, Muskogee, Oklahoma

Names of banks and type of transaction	*Total assets*
Citizens National Bank & Trust of Muskogee, Muskogee, Oklahoma (12918), with	$ 141,955,000
and American Bank of Muskogee, Muskogee, Oklahoma, with	28,571,000
merged August 1, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE FIFTH THIRD BANK OF NORTHWESTERN OHIO, NATIONAL ASSOCIATION,
Findlay, Ohio, and Commercial National Bank, Tiffin, Ohio

Names of banks and type of transaction	*Total assets*
The Fifth Third Bank of Northwestern Ohio, National Association, Findlay, Ohio (36), with	$ 240,893,000
and Commercial National Bank, Tiffin, Ohio (7795), with	194,602,000
merged August 1, 1988, under charter and title of the former. The merged bank at date of merger had	435,495,000

* * *

FIRST AMERICAN NATIONAL BANK,
Knoxville, Tennessee, and First Southern Bank, Mount Juliet, Tennessee

Names of banks and type of transaction	*Total assets*
First American National Bank, Knoxville, Tennessee (3032), with	$3,269,986,000
and First Southern Bank, Mount Juliet, Tennessee, with	58,567,000
merged August 1, 1988, under charter and title of the former. The merged bank at date of merger had	3,328,553,000

* * *

THE FIRST NATIONAL BANK OF BLAIRSTOWN,
Blairstown, New Jersey, and United National Bank, Plainfield, New Jersey

Names of banks and type of transaction	*Total assets*
The First National Bank of Blairstown, Blairstown, New Jersey (5621), with	$ 44,068,000
and United National Bank, Plainfield, New Jersey (13174), with	514,210,000
merged August 1, 1988, under charter of the former and title of the latter in Blairstown. The merged bank at date of merger had	558,278,000

* * *

NORWEST BANK DULUTH, NATIONAL ASSOCIATION,
Duluth, Minnesota, and Norwest Bank Grand Rapids, National Association, Grand Rapids, Minnesota, and Norwest Bank Two Harbors, National Association, Two Harbors, Minnesota

Names of banks and type of transaction	*Total assets*
Norwest Bank Duluth, National Association, Duluth, Minnesota (3626), with	$ 250,731,000
and Norwest Bank Grand Rapids, National Association, Grand Rapids, Minnesota (6563), with	91,078,000
and Norwest Bank Two Harbors, National Association, Two Harbors, Minnesota (12357), with	40,075,000
merged August 1, 1988, under charter 3626 and title "Norwest Bank Minnesota North, National Association" in Duluth. The merged bank at date of merger had	374,486,000

* * *

NORWEST BANK MANKATO, NATIONAL ASSOCIATION,
Mankato, Minnesota, and Norwest Bank Austin, National Association, Austin, Minnesota, and Norwest Bank Albert Lea, National Association, Albert Lea, Minnesota

Names of banks and type of transaction	*Total assets*
Norwest Bank Mankato, National Association, Mankato, Minnesota (4727), with	$ 145,216,000
and Norwest Bank Austin, National Association, Austin, Minnesota (21456), with	58,904,000
and Norwest Bank Albert Lea, National Association, Albert Lea, Minnesota (3560), with	53,026,000
merged August 1, 1988, under charter 4727 and title "Norwest Bank Minnesota South Central, National Association" in Mankato. The merged bank at date of merger had	254,538,000

* * *

NORWEST BANK ROCHESTER, NATIONAL ASSOCIATION,
Rochester, Minnesota, and Norwest Bank Winona, National Association, Winona, Minnesota, and Norwest Bank Dodge Center, Minnesota

Names of banks and type of transaction	*Total assets*
Norwest Bank Rochester, National Association, Rochester, Minnesota (2088), with	$ 223,301,000
and Norwest Bank Winona, National Association, Winona, Minnesota (3224), with	109,496,000
and Norwest Bank Dodge Center, Dodge Center, Minnesota, with	26,519,000
merged August 1, 1988, under charter 2088 and title "Norwest Bank Minnesota Southeast, National Association" in Rochester. The merged bank at date of merger had	357,608,000

* * *

NORWEST BANK ST. CLOUD, NATIONAL ASSOCIATION,
St. Cloud, Minnesota, and Norwest Bank Litchfield, National Association, Litchfield, Minnesota

Names of banks and type of transaction	*Total assets*
Norwest Bank St. Cloud, National Association, St. Cloud, Minnesota (20618), with	$ 89,178,000
and Norwest Bank Litchfield, National Association, Litchfield, Minnesota (13486), with	45,713,000
and Norwest Bank Sauk Rapids, National Association, Sauk Rapids, Minnesota (20617), with	56,160,000
merged August 1, 1988, under the charter 20618 and title "Norwest Bank Minnesota Central, National Association" in St. Cloud. The merged bank at date of merger had	189,054,000

* * *

DELAWARE BRIDGE BANK, NATIONAL ASSOCIATION,
Newark, Delaware, and First RepublicBank Delaware, Newark, Delaware

Names of banks and type of transaction	*Total assets*
Delaware Bridge Bank, National Association, Newark, Delaware (21858), with	NA
and First RepublicBank Delaware, Newark, Delaware, with	$ 582,350,000
merged August 2, 1988, under charter and title of the former. The merged bank at date of merger had	

* * *

GATEWAY NATIONAL BANK,
Dallas, Texas, and 1st Bank Balch Springs, Balch Springs, Texas

Names of banks and type of transaction	Total assets
Gateway National Bank, Dallas, Texas (17164), with	$ 51,033,000
and 1st Bank Balch Springs, Balch Springs, Texas, with	46,240,000
merged August 11, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

LOCKWOOD NATIONAL BANK OF HOUSTON,
Houston, Texas, and Galena Park State Bank, Galena Park, Texas

Names of banks and type of transaction	Total assets
Lockwood National Bank of Houston, Houston, Texas (14815), with	$ 146,906,000
and Galena Park State Bank, Galena Park, Texas, with	24,849,000
merged August 11, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and West Houston National Bank, Houston, Texas

Names of banks and type of transaction	Total assets
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$11,638,350,000
and West Houston National Bank, Houston, Texas (18116), with	26,448,000
merged August 11, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST WISCONSIN NATIONAL BANK OF FOND DU LAC,
Fond du Lac, Wisconsin, and First Wisconsin Bank of Eldorado, Eldorado, Wisconsin

Names of banks and type of transaction	Total assets
First Wisconsin National Bank of Fond du Lac, Fond du Lac, Wisconsin (555), with	$ 166,019,000
and First Wisconsin Bank of Eldorado, Eldorado, Wisconsin, with	11,516,000
merged August 15, 1988, under charter and title of the former. The merged bank at date of merger had	177,518,000

* * *

THE BANK, NATIONAL ASSOCIATION,
McAlester, Oklahoma, and Citizens State Bank, Maud, Oklahoma

Names of banks and type of transaction	Total assets
The Bank, National Association, McAlester, Oklahoma (13770), with	$ 152,831,000
and Citizens State Bank, Maud, Oklahoma, with	11,052,000
merged August 18, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE HARLINGEN NATIONAL BANK,
Harlingen, Texas, and Town and Country National Bank, Harlingen, Texas

Names of banks and type of transaction	Total assets
Harlingen National Bank, Harlingen, Texas (14776), with	$ 138,470,000
and Town and Country National Bank, Harlingen, Texas (17519), with	29,583,000
merged August 18, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST BANK, NATIONAL ASSOCIATION,
Minneapolis, Minnesota, and First Bank Bloomington, Bloomington, Minnesota

Names of banks and type of transaction	Total assets
First Bank, National Association, Minneapolis, Minnesota (710), with	$17,866,000,000
and First Bank Bloomington, Bloomington, Minnesota, with	212,000,000
merged August 19, 1988, under charter and title of the former. The merged bank at date of merger had	18,078,000,000

* * *

FIRST NATIONAL BANK,
Beresford, South Dakota, and Marshall County Bank, Britton, South Dakota

Names of banks and type of transaction	Total assets
First National Bank, Beresford, South Dakota (10813), with	$ 90,072,000
and Marshall County Bank, Britton, South Dakota, with	10,737,000
merged August 19, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

SECURITY PACIFIC NATIONAL BANK,
Los Angeles, California, and The Hibernia Bank, San Francisco, California

Names of banks and type of transaction	Total assets
Security Pacific National Bank, Los Angeles, California (2491), with	$47,000,000,000
and The Hibernia Bank, San Francisco, California, with	1,600,000,000
merged August 21, 1988, under charter and title of the former. The merged bank at date of merger had	48,600,000,000

COMPTROLLER'S DECISION

On May 16, 1988, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The Hibernia Bank, San Francisco, California (Hibernia), into Security Pacific National Bank, Los Angeles, California (Security). This application is based on an agreement finalized between the proponents on May 26, 1988.

As of March 31, 1988, Hibernia held total deposits of $1.2 billion and operated 34 offices. As of the same date, Security held total deposits of $34.6 billion and operated 595 offices. Hibernia is wholly owned by First Pacific Holdings, Limited, a Hong Kong Corporation. Security is wholly owned by Security Pacific Corporation, a Delaware corporation.

California has one of the largest and most active thrift industries in the nation. Moreover, the state legislature has expanded the powers of savings and loan associations, in recent years, to the point where they have the ability to compete fully with commercial banks. Therefore, they are considered direct competitors of commercial banks, and included in the competitive analyses which follow.

The relevant geographic markets for this proposal consist of eight Ranally Metropolitan Areas (RMA) and other self-contained market areas in which Hibernia operates all of its offices and derives the bulk of its deposits. The markets include those areas immediately surrounding Hibernia's offices and encompass the areas where the effects of this transaction on competition will be direct and immediate. In two of the geographic markets, the Colusia County Market and the Tehama County Market, Security does not compete, and this transaction will simply result in one banking office being replaced by another. Ths six remaining markets are identified on the following page with an analysis of the effects this transaction will have on competition within each relevant market.

The San Francisco RMA.[1] This market includes, among others, the cities of San Francisco, Antioch, Belmont, Berkeley, Concord, Dublin, Hayward, Lafayette, Milbrae, Newark, Oakland, San Jose, San Mateo and Walnut Creek. There are 108 banks and savings and loan associations competing in this market with total deposits of $54.5 billion. Security is ranked fifth in the market with a share of 2 percent and Hibernia is ranked fourth with a share of 3 percent. As a result of this proposal, Security will rank third in the market with a share of 5 percent, well behind two large competitors with shares of 22 and 19 percent.

[1] Market share data for San Francisco RMA include deposits of American Asian Bank, an affiliate of Security and United Savings Bank, FSB, an affiliate of Hibernia

The El Dorado County Market. There are 14 banks and savings and loan associations competing in this market with total deposits of $706 million. Security is ranked second in the market with a share of 11 percent and Hibernia is ranked fifth with a share of 3 percent. As a result of this transaction, Security will continue to rank second with a share of 14 percent.

The Eureka RMA. This market includes, among others, the cities of Eureka and Arcata. There are 11 banks and savings and loan associations competing in this market with total deposits of $1.0 billion. Security is ranked seventh in the market with a share of 5 percent and Hibernia is ranked eighth with a share of 4 percent. As a result of this transaction, Security will rank fourth in the market with a share of 9 percent.

The Redding RMA. This market includes, among others, the cities of Redding, Anderson, Enterprise and Palo Cedro. There are 17 banks and savings and loan associations competing in this market with total deposits of $1.1 billion. Security is ranked 14th in the market with a share of 2 percent and Hibernia is ranked 8th with a share of 4 percent. Security will rank 5th in the market with a share of 6 percent as a result of this proposal.

The Salinas RMA. This market includes, among others, the cities of Salinas, Monterey, Seaside, Marina, Pebble Beach, Prunedale, Pacific Grove, Castroville, Carmel and Carmel Valley as well as Ft. Ord. There are 22 banks and savings and loan associations competing in this market with total deposits of $1.7 billion. Security and Hibernia are ranked 9th and 10th, respectively, with shares just above 1 percent. Security will rank 5th in the market with a share of 3 percent as a result of this proposal.

The Yuba City RMA. Included in this market are the cities of Marysville and Yuba City. There are 15 banks and savings and loan associations competing in this market with total deposits of $770 million. Security is ranked 13th in the market with a share of 1 percent and Hibernia is ranked 8th with a share of 5 percent. As a result of this transaction, Security will rank 8th in the market with a share of 7 percent.

As a result of our analyses of the relevant markets noted previously, we find that consummation of this proposal would not have a significantly adverse effect on competition in any of the relevant markets. Numerous competitors will remain in each market, including some of the largest banks and savings and loan associations in the state.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposal institutions, and the convenience and needs of the communities to be served." Security has the financial and managerial resources to absorb Hibernia without adversely affecting its overall condition. The future prospects of the proposal are favorable as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the records of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant markets. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, subject to the conditions noted in a separate communication to Security.

July 15, 1988

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

UNION NATIONAL BANK OF TEXAS, AUSTIN, TEXAS,
Austin, Texas and BancFirst - Westlake, National Association, Austin, Texas

Names of banks and type of transaction	*Total assets*
Union National Bank of Texas, Austin, Texas, Austin Texas (21889), with	$ NA
and Bancfirst - Westlake, National Association, Austin, Texas (18230), with	14,956,000
merged August 25, 1988, under charter and title of the former. The merged bank at date of merger had	

* * *

THE FIRST NATIONAL BANK,
Keewatin, Minnesota, and Biwabik State Bank, Biwabik, Minnesota

Names of banks and type of transaction	Total assets
The First National Bank, Keewatin, Minnesota (10903), with	$ 7,084,000
and Biwabik State Bank, Biwabik, Minnesota, with	3,238,000
merged August 26, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

UMB BANK OF ILLINOIS, NATIONAL ASSOCIATION,
Maryville, Illinois, and The First National Bank of Collinsville, Collinsville, Illinois

Names of banks and type of transaction	Total assets
UMB Bank of Illinois, National Association, Maryville, Illinois (21727), with	$ 17,571,000
and The First National Bank of Collinsville, Collinsville, Illinois (6125), with	133,366,000
merged August 31, 1988, under charter and title of the former. The merged bank at date of merger had	150,216,000

* * *

COMMERCE BANK OF MEXICO, NATIONAL ASSOCIATION,
Mexico, Missouri, and Commerce Bank of Columbia, National Association, Columbia, Missouri, and Commerce Bank of Moberly, National Association, Moberly, Missouri

Names of banks and type of transaction	Total assets
Commerce Bank of Mexico, National Association, Mexico, Missouri (16949), with	$ 91,371,000
and Commerce Bank of Columbia, National Association, Columbia, Missouri (14984), with	93,422,000
and Commerce Bank of Moberly, National Association, Moberly, Missouri (16948), with	68,548,000
merged September 1, 1988, under charter 16949 and title "Commerce Bank, National Association" in Columbia. The merged bank at date of merger had	253,819,000

* * *

CONTINENTAL ILLINOIS TRUST CO. OF FLORIDA, NATIONAL ASSOCIATION,
Boca Raton, Florida, and Continental Illinois Trust Co. of Florida, National Association, Sarasota, Florida

Names of banks and type of transaction	Total assets
Continental Illinois Trust Co. of Florida, National Association, Boca Raton, Florida (17162), with	$2,248,000
and Continental Illinois Trust Co. of Florida, National Association, Sarasota, Florida (17275), with	2,267,000
merged September 1, 1988, under charter and title of the former. The merged bank at date of merger had	4,505,000

* * *

FIRST AMERICAN NATIONAL BANK,
Knoxville, Tennessee, and First American National Bank, Rockwood, Tennessee

Names of banks and type of transaction	Total assets
First American National Bank, Knoxville, Tennessee (17839), with	$1,206,368,000
and First American National Bank, Rockwood, Tennessee (14231), with	122,712,000
merged September 1, 1988, under charter and title of the former. The merged bank at date of merger had	1,329,080,000

* * *

FIRST INTERSTATE BANK OF TEXAS, NATIONAL ASSOCIATION,
Houston, Texas, and First National Bank of Atascocita, Humble, Texas

Names of banks and type of transaction	*Total assets*
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$5,592,809,000
and First National Bank of Atascocita, Humble, Texas (18177), with	9,362,000
merged September 1, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRSTIER BANK, NATIONAL ASSOCIATION,
Omaha, Nebraska, and First National Bank & Trust Company of Fremont, Fremont, Nebraska

Names of banks and type of transaction	*Total assets*
Firstier Bank, National Association, Omaha, Nebraska (1633), with	$1,067,541,000
and First National Bank & Trust Company of Fremont, Fremont, Nebraska (13408), with	59,635,000
merged September 1, 1988, under charter and title of the former. The merged bank at date of merger had	1,090,418,000

* * *

THE HAMILTON NATIONAL BANK,
Hamilton, Texas, and Commercial State Bank, San Augustine, Texas

Names of banks and type of transaction	*Total assets*
The Hamilton National Bank, Hamilton, Texas (4451), with	$ 100,915,000
and Commercial State Bank, San Augustine, Texas, with	25,607,000
merged September 1, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

AMSOUTH BANK, NATIONAL ASSOCIATION,
Birmingham, Alabama, and The First National Bank of Tuscaloosa, Tuscaloosa, Alabama

Names of banks and type of transaction	*Total assets*
AmSouth Bank, National Association, Birmingham, Alabama (3185), with	$6,635,412,000
and The First National Bank of Tuscaloosa, Tuscaloosa, Alabama (1853), with	476,025,000
merged September 10, 1988, under charter and title of the former. The merged bank at date of merger had	7,107,595,000

* * *

FIRST MIDWEST BANK, NATIONAL ASSOCIATION,
Waukegan, Illinois, and First Midwest Bank/Lake Forest, A National Association, Lake Forest, Illinois, and First Midwest Bank/North Chicago, A National Association, North Chicago, Illinois

Names of banks and type of transaction	*Total assets*
First Midwest Bank, National Association, Waukegan, Illinois (14364), with	$242,376,000
and First Midwest Bank/Lake Forest, A National Association, Lake Forest, Illinois (15520), with	62,281,000
and First Midwest Bank/North Chicago, A National Association, North Chicago, Illinois (14507), with	54,357,000
merged September 12, 1988, under charter and title of First Midwest Bank, National Association, Waukegan, Illinois. The merged bank at date of merger had	358,963,000

* * *

EQUITABLE BANK OF LITTLETON, NATIONAL ASSOCIATION,
Littleton, Colorado, and Citizens Bank Littleton, Littleton, Colorado

Names of banks and type of transaction	*Total assets*
Equitable Bank of Littleton, National Association, Littleton, Colorado (18205), with	$ 7,650,000
and Citizens Bank Littleton, Littleton, Colorado, with	6,365,000
merged September 15, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST NATIONAL BANK OF RIO GRANDE CITY,
Rio Grande City, Texas, and Trinity National Bank, San Antonio, Texas

Names of banks and type of transaction	Total assets
First National Bank of Rio Grande City, Rio Grande City, Texas (16618), with	$ 113,307,000
and Trinity National Bank, San Antonio, Texas (17955), with	33,137,000
merged September 15, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

AMERICAN NATIONAL BANK,
Ardmore, Oklahoma, and The Security State Bank, Comanche, Oklahoma

Names of banks and type of transaction	Total assets
American National Bank, Ardmore, Okalhoma (17764), with	$ 33,269,000
and The Security State Bank, Comanche, Oklahoma, with	9,045,000
merged September 22, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE CITIZENS NATIONAL BANK OF CAMERON,
Cameron, Texas, and Community Bank and Trust, Rockdale, Texas

Names of banks and type of transaction	Total assets
The Citizens National Bank of Cameron, Cameron, Texas (5484), with	$ 80,580,000
and Community Bank and Trust, Rockdale, Texas, with	14,945,000
merged September 22, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE FIRST NATIONAL BANK OF MEEKER,
Meeker, Colorado, and Peoples Bank of Meeker, Meeker, Colorado

Names of banks and type of transaction	Total assets
The First National Bank of Meeker, Meeker, Colorado (7435), with	$ 19,825,000
and Peoples State Bank of Meeker, Meeker, Colorado, with	3,894,000
merged September 23, 1988, under charter and title of the former. The merged bank at date of merger had	NA

* * *

MBANK CORPUS CHRISTI, NATIONAL ASSOCIATION
Corpus Christi, Texas, and MBank Corpus Christi South, National Association, Corpus Christi, Texas

Names of banks and type of transaction	Total assets
MBank Corpus Christi, National Association, Corpus Christi, Texas (4423), with	$ 748,520,000
and MBank Corpus Christi South, National Association, Corpus Christi, Texas (18197), with	52,713,000
merged September 23, 1988, under charter and title of the former. The merged bank at date of merger had	799,311,000

* * *

SOUTHTRUST BANK OF MARSHALL COUNTY, NATIONAL ASSOCIATION,
Boaz, Alabama, and SouthTrust Bank of Arab, Arab, Alabama

Names of banks and type of transaction	Total assets
SouthTrust Bank of Marshall County, National Association, Boaz, Alabama (21738), with	$ 80,104,000
and SouthTrust Bank of Arab, Arab, Alabama, with	42,031,000
merged September 23, 1988, under charter and title of the former. The merged bank at date of merger had	122,135,000

* * *

UNITED BANK OF WACO, NATIONAL ASSOCIATION,
Waco, Texas, and The First National Bank of Commerce, Commerce, Texas, and Sabine Bank, Port Arthur, Texas, and Southwest Bank, Mesquite, Texas, and Travis Bank and Trust, Austin, Texas

Names of banks and type of transaction	Total assets
United Bank of Waco, National Association, Waco, Texas (14901), with	$ 146,449,000
and The First National Bank of Commerce, Commerce, Texas (4021), with	44,043,000
and Sabine Bank, Port Arthur, Texas, with	93,088,000
and Southwest Bank, Mesquite, Texas, with	58,631,000
and Travis Bank and Trust, Austin, Texas, with	72,711,000
merged September 29, 1988, under charter and title of the United Bank of Waco, National Association. The merged bank at date of merger had	328,817,000

* * *

CHARTER NATIONAL BANK-COLONIAL,
Houston, Texas, and Charter National Bank-Willowbrook, Houston, Texas

Names of banks and type of transaction	Total assets
Charter National Bank-Colonial, Houston, Texas (16493), with	$ 71,319,000
and Charter National Bank-Willowbrook, Houston, Texas (16849), with	58,941,000
merged September 30, 1988, under charter and title of the former. The merged bank at date of merger had	130,260,000

* * *

FIRST CITY BANK-FORUM, NATIONAL ASSOCIATION,
San Antonio, Texas, and First City Bank-Central Park, San Antonio, Texas, and First City Bank-Windsor Park, San Antonio, Texas

Names of banks and type of transaction	Total assets
First City Bank-Forum, National Association, San Antonio, Texas (17941), with	$ 48,500,000
and First City Bank-Central Park, San Antonio, Texas, with	178,700,000
and First City Bank-Windsor Park, San Antonio, Texas, with	122,000,000
merged September 30, 1988, under charter 17941 and title "First City National Bank of San Antonio." The merged bank at date of merger had	327,100,000

* * *

FIRST CITY NATIONAL BANK OF AUSTIN,
Austin, Texas, and First City Bank-Northwest Hills, National Association, Austin, Texas

Names of banks and type of transaction	Total assets
First City National Bank of Austin, Austin, Texas (14728), with	$ 702,400,000
and First City Bank-Northwest HIlls, National Association, Austin, Texas, (17963), with	54,200,000
merged September 30, 1988, under charter and title of the former. The merged bank at date of merger had	734,200,000

* * *

FIRST CITY NATIONAL BANK OF BEAUMONT,
Beaumont, Texas, and First City Bank-Gateway, National Association, Beaumont, Texas, and First City Bank-Central, Beaumont, Texas

Names of banks and type of transaction	Total assets
First City National Bank of Beaumont, Beaumont, Texas (4017), with	$ 437,300,000
and First City Bank-Gateway, National Association, Beaumont, Texas (14871), with	77,000,000
and First City Bank-Central, Beaumont, Texas, with	70,000,000
merged September 30, 1988, under charter and title of First City National Bank of Beaumont. The merged bank at date of merger had	582,800,000

* * *

FIRST CITY NATIONAL BANK OF HOUSTON,
Houston, Texas, and First City Bank-Bear Creek, Harris County, Texas, and First City Bank-Bellaire, N.A., Bellaire, Texas, and First City Bank-Almeda Genoa, Houston, Texas, and First City Bank of Clear Lake, Houston, Texas, and First City Bank-Fondren South, Houston, Texas, and First City Bank-Gulfgate, Houston, Texas, and First City Bank of Highland Village, Houston, Texas, and First City Bank of Humble, Humble, Texas, and First City Bank-Inwood Forest, National Association, Houston, Texas, and First City-Medical Center, National Association, Houston, Texas, and First City Bank-North Belt, National Association, Houston, Texas, and First City Bank-Northchase, National Association, Houston, Texas, and First City Bank-Northeast, N.A., Houston, Texas, and First City Bank of Northline, Houston, Texas, and First City Bank-Post Oak, National Association, Houston, Texas, and First City Bank-Westwood, National Association, Houston, Texas, and First City Bank-Westheimer Plaza, National Association, Houston, Texas

Names of banks and type of transaction	*Total assets*
First City National Bank of Houston, Houston, Texas (13943), with	$4,930,500,000
and First City Bank-Bear Creek, Harris County, Texas, with	46,400,000
and First City Bank-Bellaire, N.A., Bellaire, Texas (16109), with	52,900,000
and First City Bank-Almeda Genoa, Houston, Texas, with	79,000,000
and First City Bank of Clear Lake, Houston, Texas, with	82,600,000
and First City Bank-Fondren South, Houston, Texas, with	65,500,000
and First City Bank-Gulfgate, Houston, Texas, with	168,700,000
and First City Bank of Highland Village, Houston, Texas with	146,800,000
and First City Bank of Humble, Humble, Texas, with	81,100,000
and First City Bank-Inwood Forest, National Association, Houston, Texas (16138), with	76,500,000
and First City-Medical Center, National Association, Houston, Texas (16420), with	50,900,000
and First City Bank-North Belt, National Association, Houston, Texas (16902), with	57,100,000
and First City Bank-Northchase, National Association, Houston, Texas (17396), with	52,000,000
and First City Bank-Northeast, N.A., Houston, Texas (16585), with	71,700,000
and First City Bank of Northline, Houston, Texas, with	67,000,000
and First City Bank-Post Oak, National Association, Houston, Texas (16829), with	67,500,000
and First City Bank-Westwood, National Association, Houston, Texas (17870), with	27,300,000
and First City Bank-Westheimer Plaza, National Association, Houston, Texas (17648), with	63,100,000
merged September 30, 1988, under charter and title of First City National Bank of Houston. The merged bank at date of merger had	5,561,900,000

* * *

FIRST OF AMERICA BANK-LAPORTE, NATIONAL ASSOCIATION,
Laporte, Indiana, and Lakeshore Bank and Trust Company, Michigan City, Indiana

Names of banks and type of transaction	*Total assets*
First of America Bank-Laporte, National Association, Laporte, Indiana (377), with	$ 143,234,000
and Lakeshore Bank and Trust Company, Michigan City, Indiana, with	33,146,000
merged September 30, 1988, under charter and title of the former. The merged bank at date of merger had	175,380,000

* * *

THE FIRST NATIONAL BANK OF SHREVEPORT,
Shreveport, Louisiana, and Louisiana National Bank of Baton Rouge, Baton Rouge, Louisiana

Names of banks and type of transaction	*Total assets*
The First National Bank of Shreveport, Shreveport, Louisiana (3595), with	$1,154,900,000
and Louisiana National Bank of Baton Rouge, Baton Rouge, Louisiana (9834), with	1,313,814,000
merged September 30, 1988, under charter 3595 and title of "Premier Bank, National Association" in Baton Rouge. The merged bank at date of merger had	2,468,294,000

* * *

OMNIBANC SOUTH, NATIONAL ASSOCIATION,
Houston, Texas, and Omnibanc North Belt, National Association, Houston, Texas

Names of banks and type of transaction	Total assets
Omnibanc South, National Association, Houston, Texas (14703), with	$ 90,629,000
and Omnibanc North Belt, National Association, Houston, Texas (18482), with	10,474,000
merged September 30, 1988, under charter of the former and the title "Omnibanc, National Association." The merged bank at date of merger had	101,102,000

* * *

THE PREMIER BANK OF LAKE CHARLES, NATIONAL ASSOCIATION,
Lake Charles, Louisiana, and The State National Bank of New Iberia, New Iberia, Louisiana, and Guaranty Bank and Trust Company, Lafayette, Louisiana

Names of banks and type of transaction	Total assets
The Premier Bank of Lake Charles, National Association, Lake Charles, Louisiana (14621), with	$ 150,079,000
and The State National Bank of New Iberia, New Iberia, Louisiana (6858), with	86,171,000
and Guaranty Bank and Trust Company, Lafayette, Louisiana, with	572,237,000
merged September 30, 1988, under charter 14621 and title "Premier Bank — Acadiana, National Association" in Lafayette. The merged bank at date of merger had	813,642,000

* * *

Statistical Tables

NOTE: The statistical tables were produced by the Applications Development Division.

Assets, liabilities and capital accounts of national banks, June 30, 1987, and June 30, 1988

(Dollar amounts in millions)

	June 30, 1987 4,744 banks	*June 30, 1988 4,477 banks**	*Change June 30 1987—June 30 1988 Fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$ 119,083	$ 117,389	$ -1,694	1.4
Interest-bearing balances	89,301	80,516	-8,785	-9.8
Securities	279,401	290,590	11,189	4.0
Federal funds sold and securities purchased under agreements to resell	76,897	81,314	4,417	5.7
Loans and leases, net of unearned income	1,077,064	1,152,312	75,248	7.0
Less allowance for loan and lease losses	30,641	32,284	1,643	5.4
Less allocated transfer risk reserve	93	89	-4	-4.3
Net loans and leases	1,046,330	1,119,939	73,609	7.0
Premises and fixed assets	26,073	26,892	819	3.1
Other real estate owned	5,681	7,318	1,637	28.8
Other assets	74,628	77,444	2,816	3.8
Total assets	1,717,393	1,801,401	84,008	4.9
Liabilities				
Demand deposits in domestic offices	272,896	263,224	-9,672	-3.5
Interest-bearing deposits in domestic offices	830,688	894,052	63,364	7.6
Total domestic deposits	1,103,584	1,157,276	53,692	4.9
Total foreign deposits	208,680	198,809	-9,871	-4.7
Total deposits	1,312,264	1,356,085	43,821	3.3
Federal funds purchased and securities sold under agreements to repurchase	157,846	168,695	10,849	6.9
Interest-bearing demand notes issued to the U.S. Treasury	17,722	22,151	4,429	25.0
Other liabilities for borrowed money	54,849	70,710	15,861	28.9
Subordinated notes and debentures	9,875	9,621	-254	-2.6
All other liabilities	24,861	66,318	41,457	166.8
Total liabilities	1,619,985	1,688,721	68,736	4.2
Limited-life preferred stock	77	68	-9	-11.7
Equity capital				
Perpetual preferred stock	870	858	-12	-1.4
Common stock	16,564	16,745	181	1.1
Surplus	35,397	38,484	3,087	8.7
Undivided profits and capital reserves	44,764	47,247	2,483	5.5
Cumulative foreign currency translation adjustments	-264	-342	-78	29.5
Total equity capital	97,331	102,991	5,660	5.8
Total liabilities, limited-life preferred stock, and equity capital	1,717,393	1,801,401	84,008	4.9

*Reporting national banks. Does not include the nonnational bank in the District of Columbia

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988
(Dollar amounts in millions)

	Total United States	Alabama	Alaska	Arizona	Arkansas	California	[illegible]
Number of banks	4,477	54	3	15	84	167	[illegible]
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 117,389	$ 851	$ 199	$ 1,406	$ 599	$15 123	$ [illegible]
Interest-bearing balances	80,516	216	141	231	128	6 593	764
Securities	290,590	3,930	808	2,462	2,704	17 769	3 483
Federal funds sold and securities purchased under agreements to resell	81,314	212	111	669	467	8 146	[illegible]
Loans and leases, net of unearned income	1,152,312	8,959	1,191	11,682	5,276	140 323	[illegible]
Less allowance for loan and lease losses	32,284	121	15	261	91	5 413	249
Less allocated transfer risk reserve	89	0	0	0	0	78	0
Net loans and leases	1,119,939	8,839	1,176	11,421	5,185	134 833	9 448
Premises and fixed assets	26,892	250	80	358	186	3,249	339
Other real estate owned	7,318	26	10	69	61	927	[illegible]
Other assets	77,444	393	71	370	187	8,560	439
Total assets	1,801,401	14,717	2,596	16,985	9,516	195,201	17 315
Liabilities							
Demand deposits in domestic offices	263,224	2,090	613	3,213	1,487	32,421	3 486
Interest-bearing deposits in domestic offices	894,052	9,202	1,328	11,803	6,836	93 181	10 306
Total domestic deposits	1,157,276	11,292	1,941	15,016	8,322	125,602	13 792
Total foreign deposits	198,809	247	1	0	0	28,135	159
Total deposits	1,356,085	11,539	1,941	15,016	8,322	153,738	13,952
Federal funds purchased and securities sold under agreements to repurchase	168,695	1,594	266	534	224	10 851	1 625
Interest-bearing demand notes issued to the U.S. Treasury	22,151	60	34	1	49	1 139	80
Other liabilities for borrowed money	70,710	53	6	198	40	7,856	102
Subordinated notes and debentures	9,621	—	0	37	13	2,989	27
All other liabilities	66,318	252	30	229	89	8,936	274
Total liabilities	1,688,721	13,585	2,277	15,983	8,726	183,139	16 046
Limited-life preferred stock	68	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	858	0	0	3	14	378	—
Common stock	16,745	37	70	80	157	2,225	240
Surplus	38,484	434	82	202	170	3,326	472
Undivided profits and capital reserves	47,247	661	167	681	436	3,230	529
Cumulative foreign currency translation adjustments	−342	0	0	0	0	−87	0
Total equity capital	102,991	1,132	319	965	776	9,072	1 242
Total liabilities, limited-life preferred stock, and equity capital	1,801,401	14,717	2,596	16,985	9,516	195,201	17 315
Number of banks with foreign offices	95	1	1	0	0	5	1

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued

(Dollar amounts in millions)

	Connecticut	Delaware	Dist. of Col.	Florida	Georgia	Hawaii	Idaho
Number of banks	17	18	21	155	57	3	6
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 1,704	$ 250	$ 887	$ 5,765	$ 2,937	$ 20	$ 335
Interest-bearing balances	52	108	1,977	1,442	846	—	141
Securities	3,889	444	2,609	15,964	6,160	61	1,160
Federal funds sold and securities purchased under agreements to resell	863	257	637	3,684	846	16	147
Loans and leases, net of unearned income	14,793	17,858	11,283	52,925	22,916	139	3,726
Less allowance for loan and lease losses	188	507	211	757	335	2	72
Less allocated transfer risk reserve	—	0	0	—	0	0	0
Net loans and leases	14,605	17,351	11,072	52,168	22,581	137	3,654
Premises and fixed assets	334	137	272	1,815	643	3	84
Other real estate owned	34	2	26	185	51	—	16
Other assets	458	554	605	1,970	924	4	86
Total assets	21,939	19,104	18,085	82,992	34,988	239	5,623
Liabilities							
Demand deposits in domestic offices	4,511	232	2,672	13,748	7,048	49	698
Interest-bearing deposits in domestic offices	10,769	6,479	9,114	52,151	18,368	170	3,667
Total domestic deposits	15,280	6,711	11,786	65,900	25,416	219	4,365
Total foreign deposits	266	56	2,396	831	741	0	0
Total deposits	15,545	6,767	14,182	66,731	26,157	219	4,365
Federal funds purchased and securities sold under agreements to repurchase	4,191	3,383	2,105	8,401	4,937	1	682
Interest-bearing demand notes issued to the U.S. Treasury	350	4	159	830	24	1	121
Other liabilities for borrowed money	199	6,766	88	90	442	0	—
Subordinated notes and debentures	156	152	123	237	242	2	10
All other liabilities	198	537	452	1,175	754	2	45
Total liabilities	20,494	17,479	16,986	77,435	32,490	222	5,222
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	10	13	0	1	0	—	0
Common stock	117	194	84	710	217	7	43
Surplus	408	555	206	2,278	768	4	193
Undivided profits and capital reserves	754	711	687	2,330	1,272	5	157
Cumulative foreign currency translation adjustments	0	0	-1	—	0	0	0
Total equity capital	1,289	1,473	977	5,320	2,256	16	392
Total liabilities, limited-life preferred stock, and equity capital	21,939	19,104	18,085	82,992	34,988	239	5,623
Number of banks with foreign offices	2	0	4	8	3	0	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued
(Dollar amounts in millions)

	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine
Number of banks	377	101	102	166	80	63	7
Assets							
Cash and balances due from depository institutions:							
Noninterest bearing balances and currency and coin	$ 6,937	$ 2,230	$ 724	$ 761	$ 999	$ 1,272	$ 224
Interest bearing balances	10,756	620	110	159	340	411	10
Securities	19,453	6,388	2,816	3,446	3,184	5,171	367
Federal funds sold and securities purchased under agreements to resell	5,677	955	402	639	515	678	38
Loans and leases, net of unearned income	66,838	17,592	5,076	5,424	8,687	11,800	2,620
Less allowance for loan and lease losses	2,662	226	95	99	129	260	30
Less allocated transfer risk reserve	0	0	0	0	0	0	0
Net loans and leases	64,177	17,366	4,981	5,325	8,558	11,541	2,589
Premises and fixed assets	1,250	332	135	163	207	494	49
Other real estate owned	134	43	32	51	43	223	1
Other assets	6,858	641	251	208	223	380	37
Total assets	115,242	28,575	9,451	10,750	14,070	20,169	3,315
Liabilities							
Demand deposits in domestic offices	14,520	4,512	1,544	1,603	2,140	3,405	510
Interest-bearing deposits in domestic offices	46,860	17,896	6,371	7,588	8,462	13,200	2,304
Total domestic deposits	61,380	22,408	7,916	9,191	10,602	16,606	2,813
Total foreign deposits	24,814	260	0	0	244	361	0
Total deposits	86,194	22,669	7,916	9,191	10,846	16,967	2,813
Federal funds purchased and securities sold under agreements to repurchase	8,796	2,813	625	467	1,642	1,472	152
Interest-bearing demand notes issued to the U.S. Treasury	1,946	474	59	82	247	34	17
Other liabilities for borrowed money	5,784	115	21	8	32	33	101
Subordinated notes and debentures	466	11	19	4	2	12	—
All other liabilities	5,247	410	129	125	193	201	27
Total liabilities	108,567	26,496	8,756	9,876	12,997	18,719	3,111
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	11	—	13	—	—	0	0
Common stock	2,043	230	107	139	106	176	30
Surplus	2,388	536	169	223	173	507	47
Undivided profits and capital reserves	1,800	1,302	388	507	792	754	127
Cumulative foreign currency translation adjustments	-33	0	0	0	0	0	0
Total equity capital	6,209	2,068	677	870	1,071	1,438	204
Total liabilities, limited-life preferred stock, and equity capital	115,242	28,575	9,451	10,750	14,070	20,169	3,315
Number of banks with foreign offices	5	2	0	0	1	1	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued

(Dollar amounts in millions)

	Maryland	Massa-chusetts	Michigan	Minnesota	Mississippi	Missouri	Montana
Number of banks	26	41	83	169	28	99	57
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 1,619	$ 3,358	$ 3,133	$ 2,362	$ 543	$ 2,731	$ 188
Interest-bearing balances	306	1,939	2,959	1,664	109	533	63
Securities	5,186	7,398	8,443	9,180	2,494	4,974	874
Federal funds sold and securities purchased under agreements to resell	696	1,390	1,789	1,881	393	1,733	956
Loans and leases, net of unearned income	15,576	41,938	27,527	22,304	4,992	15,520	1,666
Less allowance for loan and lease losses	272	1,173	459	507	75	329	49
Less allocated transfer risk reserve	3	4	0	0	0	0	0
Net loans and leases	15,302	40,760	27,068	21,797	4,917	15,191	1,617
Premises and fixed assets	259	718	540	298	181	516	60
Other real estate owned	10	149	70	69	36	55	18
Other assets	942	2,254	1,088	1,941	203	461	83
Total assets	24,318	57,966	45,090	39,191	8,878	26,195	3,858
Liabilities							
Demand deposits in domestic offices	3,871	7,481	7,782	5,303	1,332	5,073	697
Interest-bearing deposits in domestic offices	12,276	23,507	26,293	19,480	6,174	14,938	2,577
Total domestic deposits	16,147	30,988	34,075	24,783	7,506	20,011	3,273
Total foreign deposits	865	7,795	2,548	2,221	0	275	0
Total deposits	17,011	38,783	36,622	27,004	7,506	20,286	3,273
Federal funds purchased and securities sold under agreements to repurchase	3,319	10,871	3,526	6,334	575	3,101	249
Interest-bearing demand notes issued to the U.S. Treasury	566	1,376	618	808	8	275	15
Other liabilities for borrowed money	941	2,234	364	699	11	120	2
Subordinated notes and debentures	170	235	153	282	4	—	10
All other liabilities	837	1,361	998	1,690	94	394	56
Total liabilities	22,675	54,695	42,200	36,673	8,215	24,326	3,595
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	4	4	0	3	0	4	6
Common stock	105	177	357	372	50	268	88
Surplus	506	1,052	821	725	504	472	94
Undivided profits and capital reserves	857	1,803	1,553	1,135	105	1,126	65
Cumulative foreign currency translation adjustments	0	1	6	0	0	0	0
Total equity capital	1,472	3,036	2,737	2,236	659	1,869	253
Total liabilities, limited-life preferred stock, and equity capital	24,318	57,966	45,090	39,191	8,878	26,195	3,858
Number of banks with foreign offices	2	4	3	3	0	2	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued
(Dollar amounts in millions)

	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina
Number of banks	112	7	20	64	42	103	15
Assets							
Cash and balances due from depository institutions							
Noninterest bearing balances and currency and coin	$ 749	$ 423	$ 259	$ 4,814	$ 425	$ 16,663	$ 3,169
Interest bearing balances	92	14	10	398	49	28,530	1,539
Securities	3,083	1,136	542	9,700	1,445	37,396	9,448
Federal funds sold and securities purchased under agreements to resell	344	27	79	1,142	482	13,056	1,865
Loans and leases, net of unearned income	5,075	6,579	4,113	40,944	3,380	198,152	30,275
Less allowance for loan and lease losses	102	152	42	570	51	7,339	359
Less allocated transfer risk reserve	0	0	0	0	0	1	0
Net loans and leases	4,973	6,427	4,071	40,373	3,328	190,813	29,916
Premises and fixed assets	165	132	54	795	119	4,179	720
Other real estate owned	33	32	6	23	38	258	39
Other assets	224	135	87	1,284	104	26,871	1,730
Total assets	9,662	8,326	5,108	58,532	5,990	317,767	48,425
Liabilities							
Demand deposits in domestic offices	1,485	1,019	608	12,400	900	37,079	6,117
Interest-bearing deposits in domestic offices	6,670	2,407	3,693	35,865	4,133	85,632	23,994
Total domestic deposits	8,155	3,425	4,301	48,265	5,032	122,711	30,112
Total foreign deposits	0	0	0	427	0	107,565	2,595
Total deposits	8,155	3,425	4,301	48,692	5,032	230,276	32,707
Federal funds purchased and securities sold under agreements to repurchase	415	411	214	4,502	436	17,695	9,660
Interest-bearing demand notes issued to the U.S. Treasury	35	16	24	275	18	3,312	608
Other liabilities for borrowed money	100	3,585	179	328	1	20,980	557
Subordinated notes and debentures	7	150	—	153	6	1,704	137
All other liabilities	170	254	76	978	52	25,946	1,478
Total liabilities	8,875	7,692	4,796	54,851	5,540	299,356	45,228
Limited-life preferred stock	0	0	0	0	0	0	67
Equity capital							
Perpetual preferred stock	1	0	0	7	0	105	0
Common stock	107	133	12	568	95	2,443	343
Surplus	165	158	114	787	136	7,627	625
Undivided profits and capital reserves	508	194	185	2,166	214	6,766	2,026
Cumulative foreign currency translation adjustments	0	0	0	0	0	−235	−2
Total equity capital	780	484	311	3,529	444	16,706	2,992
Total liabilities, limited-life preferred stock, and equity capital	9,662	8,326	5,108	58,532	5,990	317,767	48,425
Number of banks with foreign offices	0	0	0	3	0	10	3

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued

(Dollar amounts in millions)

	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
Number of banks	29	137	200	7	166	5	22
Assets							
Cash and balances due from depository institutions:							
Noninterest-bearing balances and currency and coin	$ 151	$ 4,337	$ 1,063	$ 1,046	$ 6,421	$ 508	$ 1,114
Interest-bearing balances	66	2,334	381	149	6,646	121	79
Securities	843	12,729	5,265	2,601	19,633	1,620	2,280
Federal funds sold and securities purchased under agreements to resell	413	2,203	1,272	1,142	3,655	431	628
Loans and leases, net of unearned income	1,488	48,459	7,268	9,202	64,408	8,642	7,879
Less allowance for loan and lease losses	34	767	244	128	1,940	184	94
Less allocated transfer risk reserve	0	0	0	0	2	0	0
Net loans and leases	1,453	47,692	7,024	9,073	62,466	8,458	7,785
Premises and fixed assets	39	971	292	169	1,199	118	188
Other real estate owned	10	58	283	19	210	36	20
Other assets	55	1,925	373	579	5,232	769	234
Total assets	3,031	72,249	15,954	14,779	105,462	12,060	12,328
Liabilities							
Noninterest-bearing deposits in domestic offices	363	9,893	2,688	2,249	14,235	1,225	2,306
Interest-bearing deposits in domestic offices	2,240	45,720	10,822	8,809	53,501	6,587	7,057
Total domestic deposits	2,603	55,613	13,510	11,058	67,735	7,812	9,363
Total foreign deposits	0	1,645	31	0	8,180	1,117	0
Total deposits	2,603	57,258	13,541	11,058	75,915	8,929	9,363
Federal funds purchased and securities sold under agreements to repurchase	128	7,982	706	2,046	12,372	979	1,796
Interest-bearing demand notes issued to the U.S. Treasury	15	350	217	30	2,022	178	91
Other liabilities for borrowed money	10	433	17	76	3,414	860	114
Subordinated notes and debentures	11	27	11	32	651	90	58
All other liabilities	46	1,217	219	604	4,808	288	157
Total liabilities	2,802	67,284	14,762	13,815	99,204	11,246	11,524
Limited-life preferred stock	0	0	0	0	—	0	0
Equity capital							
Perpetual preferred stock	0	3	172	2	0	20	0
Common stock	54	705	210	94	638	43	65
Surplus	69	1,589	359	204	1,727	237	219
Undivided profits and capital reserves	95	2,642	440	633	3,233	423	462
Cumulative foreign currency translation adjustments	0	0	0	0	8	—	0
Total equity capital	217	4,938	1,181	933	5,607	724	746
Total liabilities, limited-life preferred stock, and equity capital	3,031	72,249	15,954	14,779	105,462	12,060	12,328
Number of banks with foreign offices	0	5	0	1	6	1	0

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—*continued*
(Dollar amounts in millions)

	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington
Number of banks	24	55	897	7	12	53	22
Assets							
Cash and balances due from depository institutions							
Noninterest-bearing balances and currency and coin	$ 297	$ 1,542	$ 9,493	$ 454	$ 118	$ 1,700	$ 2,239
Interest-bearing balances	52	548	5,025	228	10	433	624
Securities	973	5,047	21,353	1,047	243	3,838	2,312
Federal funds sold and securities purchased under agreements to resell	601	574	15,424	226	33	1,150	494
Loans and leases, net of unearned income	14,155	14,235	80,105	4,247	1,472	16,756	21,058
Less allowance for loan and lease losses	386	239	4,192	78	12	182	355
Less allocated transfer risk reserve	0	0	1	0	0	0	0
Net loans and leases	13,769	13,996	75,913	4,169	1,461	16,574	20,703
Premises and fixed assets	119	326	2,821	86	35	443	501
Other real estate owned	7	58	3,281	47	1	21	149
Other assets	627	815	4,214	128	25	458	848
Total assets	16,445	22,904	137,525	6,387	1,925	24,618	27,870
Liabilities							
Noninterest-bearing deposits in domestic offices	487	3,593	20,580	982	273	3,647	4,957
Interest-bearing deposits in domestic offices	4,307	13,979	80,728	4,021	1,445	15,786	16,699
Total domestic deposits	4,794	17,572	101,307	5,003	1,717	19,433	21,655
Total foreign deposits	0	231	3,076	122	0	260	1,269
Total deposits	4,794	17,803	104,383	5,124	1,717	19,693	22,925
Federal funds purchased and securities sold under agreements to repurchase	1,261	2,195	16,754	654	34	2,545	1,234
Interest-bearing demand notes issued to the U.S. Treasury	17	73	4,411	35	10	258	634
Other liabilities for borrowed money	7,948	544	4,646	55	12	125	362
Subordinated notes and debentures	438	104	408	21	2	25	209
All other liabilities	1,037	607	2,061	89	18	294	737
Total liabilities	15,058	21,243	132,325	5,963	1,791	22,984	25,929
Limited-life preferred stock	0	0	0	0	0	0	0
Equity capital							
Perpetual preferred stock	1	1	84	0	0	0	0
Common stock	177	212	1,675	54	13	132	260
Surplus	273	403	4,480	133	34	374	833
Undivided profits and capital reserves	498	942	−1,448	215	84	1,103	638
Cumulative foreign currency translation adjustments	0	0	—	0	0	0	1
Total equity capital	949	1,557	4,792	402	132	1,608	1,732
Total liabilities, limited-life preferred stock, and equity capital	16,445	22,904	137,525	6,387	1,925	24,618	27,870
Number of banks with foreign offices	0	1	11	0	0	1	3

See notes at end of table

Consolidated foreign and domestic assets, liabilities and capital accounts of national banks, by states, June 30, 1988—continued
(Dollar amounts in millions)

	West Virginia	Wisconsin	Wyoming	Puerto Rico	D.C.—nonnational*
Number of banks	95	116	37	1	1
Assets					
Cash and balances due from depository institutions:					
Noninterest-bearing balances and currency and coin	$ 417	$ 1,170	$ 125	$ 4	$ 6
Interest-bearing balances	159	354	57	1	—
Securities	3,030	3,374	817	17	38
Federal funds sold and securities purchased under agreements to resell	446	638	123	13	2
Loans and leases, net of unearned income	4,892	10,275	874	52	57
Less allowance for loan and lease losses	57	158	32	1	1
Less allocated transfer risk reserve	0	0	0	0	0
Net loans and leases	4,835	10,117	842	51	56
Premises and fixed assets	188	249	30	3	1
Other real estate owned	24	35	24	0	—
Other assets	142	347	47	1	2
Total assets	9,244	16,285	2,066	92	105
Liabilities					
Noninterest-bearing deposits in domestic offices	1,131	2,670	288	10	26
Interest-bearing deposits in domestic offices	6,752	10,282	1,557	71	69
Total domestic deposits	7,883	12,952	1,845	80	95
Total foreign deposits	0	77	0	0	0
Total deposits	7,883	13,029	1,845	80	95
Federal funds purchased and securities sold under agreements to repurchase	365	1,530	40	5	1
Interest-bearing demand notes issued to the U.S. Treasury	27	115	3	0	0
Other liabilities for borrowed money	12	45	—	0	0
Subordinated notes and debentures	1	16	3	0	0
All other liabilities	92	336	18	1	—
Total liabilities	8,391	15,082	1,906	86	96
Limited-life preferred stock	0	0	0	0	0
Equity capital					
Perpetual preferred stock	0	0	0	0	0
Common stock	93	173	15	2	1
Surplus	217	345	57	4	1
Undivided profits and capital reserves	541	668	86	—	6
Cumulative foreign currency translation adjustments	0	0	0	0	0
Total equity capital	851	1,186	158	6	8
Total liabilities, limited-life preferred stock, and equity capital	9,244	16,285	2,066	92	105
Number of banks with foreign offices	0	2	0	0	0

*Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency. Nonnational bank data are not included in U.S. aggregates.

NOTES: Foreign offices are defined to include Edge Act and Agreement subsidiaries in the U.S., branches located in Puerto Rico, the Virgin Islands and U.S. Trust Territories and branches and subsidiaries located in foreign countries. Dashes indicate amounts of less than $500,000. Data are from the consolidated reports of condition filed quarterly by all national banks.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988

(Dollar amounts in millions)

	Total United States	Alabama	Alaska	Arizona	Arkansas	California	Colorado
Number of banks	4,477	54	3	15	84	167	23[illegible]
Interest income							
Interest and fee income on loans	$58,255.1	$438.8	$60.0	$592.2	$262.3	$6,688.9	$500.6
Income from lease financing receivables	1,231.1	2.3	0.1	11.5	0.7	158.4	2.9
Interest income on balances due from depository institutions	3,583.8	8.2	4.1	6.9	5.5	277.6	25.5
Interest and dividend income on securities	10,994.9	143.5	29.1	91.9	101.7	570.4	127.5
Interest income from assets held in trading accounts	1,546.9	4.6	0.0	0.7	1.1	142.1	3.2
Interest income from federal funds sold and securities purchased under agreements to resell	2,885.2	12.1	4.1	14.6	16.1	292.6	31.6
Total interest income	78,497.0	609.4	97.4	717.8	387.2	8,130.2	691.3
Interest expense							
Interest on deposits	36,380.4	303.6	39.6	363.4	197.4	3,620.5	309.0
Expense of federal funds purchased and securities sold under agreements to repurchase	6,091.7	54.9	8.3	11.4	7.9	374.7	49.0
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	4,978.1	2.8	0.5	9.0	1.3	368.5	7.0
Interest on mortgage indebtedness and obligations under capitalized leases	79.0	0.5	—	0.4	0.3	11.4	0.9
Interest on notes and debentures subordinated to deposits	411.9	—	0.0	1.3	0.6	117.3	1.4
Total interest expense	47,941.1	361.8	48.4	385.4	207.6	4,492.4	367.4
Net interest income	30,555.9	247.6	49.0	332.4	179.6	3,637.8	323.9
Provision for loan and lease losses	6,519.7	16.6	7.2	63.1	22.2	518.6	68.0
Provision for allocated transfer risk	54.7	0.0	0.0	0.0	0.0	53.3	0.0
Noninterest income							
Service charges on deposit accounts	2,889.6	29.1	7.0	56.9	20.4	467.2	54.5
Other noninterest income	10,751.3	63.9	13.4	70.3	43.6	1,440.3	105.5
Total noninterest income	13,640.9	93.1	20.4	127.2	64.0	1,907.6	160.0
Gains and losses on securities not held in trading accounts	282.9	3.9	0.9	0.4	0.8	2.3	1.5
Noninterest expense:							
Salaries and employee benefits	13,726.7	107.7	25.1	177.4	78.3	1,779.1	163.4
Expenses of premises and fixed assets (net of rental income)	4,764.2	32.9	9.9	54.1	26.1	706.1	59.1
Other noninterest expense	12,092.1	74.9	13.3	91.1	65.7	1,345.9	164.0
Total noninterest expense	30,582.9	215.5	48.3	322.6	170.0	3,831.1	386.5
Income (loss) before income taxes and extraordinary items and other adjustments	7,322.3	112.4	14.8	74.3	52.2	1,144.5	30.9
Applicable income taxes	2,801.1	23.8	1.5	15.3	9.3	467.9	2.2
Income before extraordinary items and other adjustments	4,521.2	88.6	13.4	59.0	43.0	676.6	28.7
Extraordinary items and adjustments, net of taxes	172.9	0.1	0.0	4.5	0.4	68.1	0.2
Net income	4,694.1	88.7	13.4	63.5	43.4	744.7	28.9
Total cash dividends declared	3,813.6	36.5	3.0	103.2	19.9	168.5	39.9
Recoveries credited to allowance for possible loan losses	1,342.9	12.1	0.8	16.5	8.5	301.9	14.8
Losses charged to allowance for possible loan losses	7,830.3	22.4	8.7	80.8	27.6	861.3	78.2
Net loan losses	6,487.4	10.3	7.9	64.3	19.1	559.4	63.4

Ratio to total operating income							
Interest on deposits	39.5	43.2	33.6	43.0	43.8	36.1	36.3
Other interest expense	12.5	8.3	7.5	2.6	2.3	8.7	6.9
Salaries and employee benefits	14.9	15.3	21.3	21.0	17.3	17.7	19.2
Other noninterest expense	18.3	15.3	19.7	17.2	20.3	20.4	26.2
Total operating expenses	85.2	82.2	82.1	83.8	83.7	82.9	88.6
Ratio of net income to total equity capital (end of period)—percent	4.6	7.8	4.2	6.6	5.6	8.2	2.3

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued

(Dollar amounts in millions)

	Connecticut	Delaware	District of Columbia	Florida	Georgia	Hawaii	Idaho
Number of banks	17	18	21	155	57	3	6
Interest income							
Interest and fee income on loans	$728.2	$1,344.7	$515.0	$2,597.8	$1,204.3	$7.1	$183.2
Income from lease financing receivables	0.0	4.8	1.7	10.7	25.3	0.1	2.6
Interest income on balances due from depository institutions	5.2	3.9	69.6	52.4	35.7	—	7.9
Interest and dividend income on securities	140.9	17.5	101.0	634.0	263.9	2.3	42.0
Interest income from assets held in trading accounts	0.7	0.0	2.5	1.9	4.1	—	0.3
Interest income from federal funds sold and securities purchased under agreements to resell	23.0	6.2	19.0	127.9	32.7	0.6	4.5
Total interest income	898.0	1,377.2	708.7	3,424.7	1,566.0	10.0	240.4
Interest expense							
Interest on deposits	357.8	248.8	366.1	1,545.2	613.9	4.6	108.3
Expense of federal funds purchased and securities sold under agreements to repurchase	136.4	127.2	59.9	271.0	188.1	—	19.5
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	15.5	251.6	9.0	20.3	14.5	—	2.8
Interest on mortgage indebtedness and obligations under capitalized leases	0.9	0.1	0.5	3.3	1.2	0.0	0.2
Interest on notes and debentures subordinated to deposits	7.3	7.0	5.5	10.3	13.0	—	0.5
Total interest expense	517.9	634.7	440.9	1,850.0	830.7	4.7	131.4
Net interest income	380.2	742.5	267.8	1,574.7	735.3	5.3	109.0
Provision for loan and lease losses	38.4	295.6	23.5	202.2	76.5	0.1	8.1
Provision for allocated transfer risk	−1.4	0.0	0.0	0.2	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	40.9	4.1	24.3	193.1	100.0	0.6	14.9
Other noninterest income	89.5	312.9	61.9	331.2	111.2	1.0	15.0
Total noninterest income	130.4	317.0	86.1	524.3	211.2	1.5	29.9
Gains and losses on securities not held in trading accounts	8.0	0.3	0.4	17.0	10.5	0.0	0.2
Noninterest expense							
Salaries and employee benefits	185.6	106.6	105.4	642.8	316.8	2.8	37.1
Expenses of premises and fixed assets (net of rental income)	66.4	32.9	43.2	263.9	98.9	1.4	7.8
Other noninterest expense	97.5	378.3	97.2	549.0	244.7	1.8	45.8
Total noninterest expense	349.5	517.8	245.8	1,455.6	660.4	6.0	90.7
Income (loss) before income taxes and extraordinary items and other adjustments	132.0	246.4	85.0	458.0	220.1	0.7	40.4
Applicable income taxes	40.4	95.3	21.3	96.8	42.0	0.3	12.1
Income before extraordinary items and other adjustments	91.6	151.1	63.7	361.2	178.1	0.4	28.2
Extraordinary items and adjustments, net of taxes	0.0	0.0	−2.4	0.9	—	0.0	—
Net income	91.6	151.1	61.3	362.0	178.1	0.4	28.3
Total cash dividends declared	36.8	29.2	22.2	124.6	69.5	0.1	12.7
Recoveries credited to allowance for possible loan losses	4.3	34.2	7.1	44.0	29.4	—	6.3
Losses charged to allowance for possible loan losses	25.9	309.0	32.2	211.8	122.6	0.1	14.9
Net loan losses	21.6	274.9	25.0	167.8	93.2	—	8.6

Ratio to total operating income:							
Interest on deposits	34.8	14.7	46.1	39.1	34.5	40.1	40.1
Other interest expense	15.6	22.8	9.4	7.7	12.2	0.9	8.5
Salaries and employee benefits	18.0	6.3	13.3	16.3	17.8	24.6	13.7
Other noninterest expense	15.9	24.3	17.7	20.6	19.3	27.5	19.9
Total operating expenses	84.3	68.0	86.4	83.7	83.9	93.1	82.2
Ratio of net income to total equity capital (end of period)—percent	7.1	10.3	6.3	6.8	7.9	2.7	7.2

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — *continued*
(Dollar amounts in millions)

	Illinois	*Indiana*	*Iowa*	*Kansas*	*Kentucky*	*Louisiana*	*Maine*
Number of banks	377	101	102	166	80	63	[illegible]
Interest income							
Interest and fee income on loans	$3,077.7	$849.1	$259.9	$283.0	$414.2	$580.9	$128.[illegible]
Income from lease financing receivables	11.6	14.4	0.4	1.9	6.6	1.6	[illegible]
Interest income on balances due from depository institutions	406.4	27.5	4.5	6.2	10.9	15.3	0.[illegible]
Interest and dividend income on securities	664.3	248.4	111.5	139.0	123.5	221.1	13.9
Interest income from assets held in trading accounts	65.7	1.1	—	0.1	0.4	0.3	0.[illegible]
Interest income from federal funds sold and securities purchased under agreements to resell	254.9	28.9	17.8	22.8	19.4	28.8	1.4
Total interest income	4,480.7	1,169.4	394.2	453.1	575.1	848.0	144.4
Interest expense							
Interest on deposits	2,388.6	564.8	191.5	232.8	276.1	422.7	71.5
Expense of federal funds purchased and securities sold under agreements to repurchase	339.9	90.8	21.7	15.4	50.1	56.1	4.5
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	205.8	15.3	1.7	2.3	6.6	1.7	4.4
Interest on mortgage indebtedness and obligations under capitalized leases	1.2	1.0	0.6	0.3	0.8	1.7	0.[illegible]
Interest on notes and debentures subordinated to deposits	19.3	0.5	0.9	0.2	0.1	0.6	—
Total interest expense	2,954.7	672.5	216.4	250.9	333.7	482.7	80.5
Net interest income	1,525.9	497.0	177.8	202.2	241.3	365.3	63.9
Provision for loan and lease losses	183.7	41.4	15.2	21.7	28.3	84.4	4.7
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	108.1	43.7	15.4	20.7	22.2	40.0	4.8
Other noninterest income	625.1	110.3	40.7	34.0	36.6	60.9	13.9
Total noninterest income	733.2	154.0	56.1	54.6	58.9	100.8	18.7
Gains and losses on securities not held in trading accounts	6.4	5.0	-0.1	2.3	0.8	6.6	0.4
Noninterest expense							
Salaries and employee benefits	790.0	185.6	65.4	77.2	96.6	146.3	28.1
Expenses of premises and fixed assets (net of rental income)	234.9	58.0	19.5	20.7	32.0	48.8	10.4
Other noninterest expense	432.5	168.2	71.3	70.4	63.0	138.2	17.9
Total noninterest expense	1,457.4	411.8	156.2	168.3	191.7	333.3	56.3
Income (loss) before income taxes and extraordinary items and other adjustments	624.5	202.9	62.4	69.1	81.1	55.1	21.9
Applicable income taxes	79.6	38.3	17.1	17.5	12.5	16.6	5.7
Income before extraordinary items and other adjustments	544.9	164.6	45.3	51.6	68.6	38.4	16.3
Extraordinary items and adjustments, net of taxes	3.0	0.4	0.5	1.0	1.2	0.2	0.0
Net income	547.8	165.0	45.8	52.6	69.8	38.6	16.3
Total cash dividends declared	192.1	56.4	32.8	38.8	22.3	50.7	4.9
Recoveries credited to allowance for possible loan losses	58.9	14.6	7.9	5.7	6.2	16.5	1.4
Losses charged to allowance for possible loan losses	459.1	91.3	21.5	24.3	29.8	97.6	2.4
Net loan losses	400.2	76.7	13.6	18.6	23.6	81.0	1.0

Ratio to total operating income:							
Interest on deposits	45.8	42.7	42.5	45.8	43.6	44.5	43.8
Other interest expense	10.9	8.1	5.5	3.6	9.1	6.3	5.6
Salaries and employee benefits	15.2	14.0	14.5	15.2	15.2	15.4	17.2
Other noninterest expense	12.8	17.1	20.2	17.9	15.0	19.7	17.3
Total operating expenses	84.6	81.9	82.8	82.6	82.9	86.0	83.9
Ratio of net income to total equity capital (end of period)—percent	8.8	8.0	6.8	6.0	6.5	2.7	8.0

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued

(Dollar amounts in millions)

	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri	Montana
Number of banks	26	41	83	169	28	99	[illegible]
Interest income							
Interest and fee income on loans	$762.5	$2,351.7	$1,323.4	$1,012.1	$244.7	$732.5	$88.1
Income from lease financing receivables	20.2	140.1	19.8	7.6	0.1	6.0	[illegible]
Interest income on balances due from depository institutions	17.6	216.7	117.8	63.4	5.3	19.3	2.7
Interest and dividend income on securities	197.9	416.9	316.9	327.5	99.2	187.2	[illegible]
Interest income from assets held in trading accounts	4.7	10.2	4.3	15.0	0.1	5.0	—
Interest income from federal funds sold and securities purchased under agreements to resell	18.3	37.1	47.9	68.7	15.6	65.0	34.8
Total interest income	1,021.1	3,172.7	1,830.1	1,494.3	365.0	1,014.9	158.8
Interest expense							
Interest on deposits	420.4	1,478.3	898.2	720.3	194.2	485.3	75.8
Expense of federal funds purchased and securities sold under agreements to repurchase	107.3	390.0	131.3	214.4	19.0	91.5	7.9
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	40.0	318.4	26.7	45.7	0.7	13.1	0.6
Interest on mortgage indebtedness and obligations under capitalized leases	1.0	1.8	1.2	1.6	0.1	3.7	0.4
Interest on notes and debentures subordinated to deposits	7.8	10.8	6.5	10.6	0.1	—	0.4
Total interest expense	576.5	2,199.3	1,063.9	992.7	214.1	593.6	85.1
Net interest income	444.6	973.5	766.2	501.6	150.9	421.4	73.7
Provision for loan and lease losses	78.2	126.4	73.3	70.3	12.4	55.8	4.4
Provision for allocated transfer risk	0.6	1.5	0.0	0.0	0.0	0.0	0.0
Noninterest income:							
Service charges on deposit accounts	50.7	59.2	76.5	54.6	18.8	48.1	6.5
Other noninterest income	87.7	464.7	185.1	169.2	27.6	144.6	9.9
Total noninterest income	138.3	523.8	261.6	223.8	46.4	192.7	16.4
Gains and losses on securities not held in trading accounts	-0.6	24.3	1.3	1.7	-1.3	5.9	0.5
Noninterest expense:							
Salaries and employee benefits	198.7	468.1	338.9	190.9	69.1	199.2	24.8
Expenses of premises and fixed assets (net of rental income)	69.9	174.4	103.6	55.9	22.8	64.6	8.7
Other noninterest expense	135.9	307.8	245.6	277.6	43.1	164.8	34.7
Total noninterest expense	404.6	950.4	688.0	524.5	135.0	428.5	68.1
Income (loss) before income taxes and extraordinary items and other adjustments	98.9	443.4	267.7	132.3	48.5	135.7	18.0
Applicable income taxes	18.2	157.0	57.1	16.2	6.8	30.0	5.0
Income before extraordinary items and other adjustments	80.8	286.5	210.6	116.1	41.7	105.7	13.0
Extraordinary items and adjustments, net of taxes	17.9	0.0	0.7	13.4	—	1.4	-1.4
Net income	98.6	286.5	211.3	129.5	41.7	107.1	11.6
Total cash dividends declared	28.6	21.0	123.5	82.6	16.8	69.4	10.7
Recoveries credited to allowance for possible loan losses	15.6	34.2	21.4	37.1	5.1	18.6	4.7
Losses charged to allowance for possible loan losses	56.2	114.1	76.5	265.6	21.2	102.0	8.4
Net loan losses	40.6	79.8	55.1	228.5	16.1	83.4	3.8

Ratio to total operating income:							
Interest on deposits	36.3	40.0	42.9	41.9	47.2	40.2	43.3
Other interest expense	13.5	19.5	7.9	15.9	4.8	9.0	5.3
Salaries and employee benefits	17.1	12.7	16.2	11.1	16.8	16.5	14.1
Other noninterest expense	17.8	13.0	16.7	19.4	16.0	19.0	24.8
Total operating expenses	84.6	85.2	83.8	88.3	84.9	84.6	87.5
Ratio of net income to total equity capital (end of period)—percent	6.7	9.4	7.7	5.8	6.3	5.7	4.6

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued

(Dollar amounts in millions)

	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina
Number of banks	112	7	20	64	42	103	[illegible]
Interest income							
Interest and fee income on loans	$279.0	$460.1	$256.1	$1,928.0	$183.5	$11,123.0	$1,382.7
Income from lease financing receivables	3.4	0.5	0.5	13.1	0.9	476.5	37.5
Interest income on balances due from depository institutions	3.7	1.9	0.4	15.7	2.0	1,397.5	56.7
Interest and dividend income on securities	125.8	37.1	20.3	374.4	55.5	1,239.0	419.9
Interest income from assets held in trading accounts	0.4	—	0.0	3.2	—	1,194.4	20.7
Interest income from federal funds sold and securities purchased under agreements to resell	13.6	1.6	3.1	37.6	18.7	506.1	63.5
Total interest income	425.9	501.3	280.5	2,372.0	260.6	15,936.6	1,981.0
Interest expense							
Interest on deposits	201.6	70.0	118.2	1,056.5	130.0	7,865.3	793.2
Expense of federal funds purchased and securities sold under agreements to repurchase	13.2	21.7	7.7	151.9	15.6	870.5	378.1
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	5.0	111.5	9.5	28.0	0.5	2,497.2	44.7
Interest on mortgage indebtedness and obligations under capitalized leases	1.2	0.2	0.7	1.2	0.1	17.7	2.2
Interest on notes and debentures subordinated to deposits	0.2	5.6	—	8.2	0.3	77.0	5.9
Total interest expense	221.2	209.0	136.1	1,245.8	146.6	11,327.6	1,224.1
Net interest income	204.7	292.3	144.4	1,126.2	114.0	4,609.0	756.9
Provision for loan and lease losses	22.8	66.8	18.9	88.0	17.3	426.8	44.7
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Noninterest income:							
Service charges on deposit accounts	15.5	14.7	5.6	110.3	13.3	190.3	84.5
Other noninterest income	73.0	49.6	14.8	159.4	21.6	2,772.4	252.3
Total noninterest income	88.5	64.3	20.4	269.7	34.9	2,962.7	336.8
Gains and losses on securities not held in trading accounts	-0.2	0.5	0.6	-0.2	1.1	97.1	28.8
Noninterest expense:							
Salaries and employee benefits	76.1	51.3	30.4	429.1	52.0	2,650.9	354.5
Expenses of premises and fixed assets (net of rental income)	25.0	21.8	10.2	156.4	13.5	929.2	124.1
Other noninterest expense	94.4	102.8	92.1	310.8	33.7	1,816.9	219.4
Total noninterest expense	195.4	176.0	132.7	896.3	99.2	5,397.1	698.0
Income (loss) before income taxes and extraordinary items and other adjustments	74.9	114.4	13.7	411.6	33.4	1,844.4	379.8
Applicable income taxes	18.6	36.4	-0.2	111.6	7.7	599.3	92.0
Income before extraordinary items and other adjustments	56.3	78.0	13.9	300.0	25.7	1,245.2	287.8
Extraordinary items and adjustments, net of taxes	-0.7	—	0.0	0.3	1.4	-3.6	—
Net income	55.6	78.0	13.9	300.2	27.2	1,241.6	287.8
Total cash dividends declared	37.2	156.9	7.4	108.5	15.8	538.0	103.5
Recoveries credited to allowance for possible loan losses	10.7	8.5	1.0	18.8	4.5	150.4	20.3
Losses charged to allowance for possible loan losses	28.4	84.0	15.3	93.3	16.5	807.4	141.0
Net loan losses	17.8	75.5	14.3	74.5	12.0	657.0	120.7

Ratio to total operating income:							
Interest on deposits	39.2	12.4	39.3	40.0	44.0	41.6	34.2
Other interest expense	3.8	24.6	6.0	7.2	5.6	18.3	18.6
Salaries and employee benefits	14.8	9.1	10.1	16.2	17.6	14.0	15.3
Other noninterest expense	23.2	22.0	34.0	17.7	16.0	14.5	14.8
Total operating expenses	81.0	68.1	89.4	81.1	83.2	88.5	82.9
Ratio of net income to total equity capital (end of period)—percent	7.1	16.1	4.5	8.5	6.1	7.4	9.6

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued
(Dollar amounts in millions)

	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
Number of banks	29	137	200	7	166	5	22
Interest income							
Interest and fee income on loans	$76.9	$2,404.0	$374.1	$447.2	$2,839.4	$399.5	$386.5
Income from lease financing receivables	0.3	59.4	0.3	7.1	78.4	50.2	3.9
Interest income on balances due from depository institutions	2.9	94.7	16.0	7.8	261.4	7.7	1.4
Interest and dividend income on securities	33.7	480.3	195.3	90.3	777.9	63.6	89.4
Interest income from assets held in trading accounts	0.0	3.7	2.3	3.1	21.7	0.4	1.5
Interest income from federal funds sold and securities purchased under agreements to resell	15.6	81.2	37.3	24.2	104.1	11.2	16.0
Total interest income	129.4	3,123.3	625.3	579.5	4,082.9	532.6	498.8
Interest expense							
Interest on deposits	69.0	1,432.6	334.0	241.8	1,934.0	242.0	207.6
Expense of federal funds purchased and securities sold under agreements to repurchase	3.0	259.1	23.4	45.6	409.1	32.9	55.4
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	0.4	21.3	5.8	5.8	189.0	39.8	4.5
Interest on mortgage indebtedness and obligations under capitalized leases	0.2	2.1	0.7	0.5	2.9	0.3	0.4
Interest on notes and debentures subordinated to deposits	0.5	1.4	0.5	1.5	27.3	3.8	2.2
Total interest expense	72.9	1,716.5	364.5	295.2	2,562.3	318.7	270.2
Net interest income	56.4	1,406.8	260.8	284.3	1,520.6	213.9	228.6
Provision for loan and lease losses	5.4	197.3	56.3	28.8	160.9	24.5	14.8
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	4.4	114.9	35.2	36.2	129.3	9.0	29.6
Other noninterest income	8.6	402.6	67.5	48.5	497.4	110.3	37.3
Total noninterest income	13.0	517.6	102.7	84.7	626.8	119.4	66.9
Gains and losses on securities not held in trading accounts	0.7	5.2	1.8	-0.3	10.8	1.7	1.7
Noninterest expense							
Salaries and employee benefits	20.5	499.8	130.6	114.9	657.1	96.9	104.2
Expenses of premises and fixed assets (net of rental income)	7.0	150.3	41.3	30.2	236.5	19.6	34.0
Other noninterest expense	19.7	535.0	124.4	86.5	549.3	79.7	69.4
Total noninterest expense	47.2	1,185.1	296.4	231.6	1,442.9	196.2	207.6
Income (loss) before income taxes and extraordinary items and other adjustments	17.6	547.2	12.6	108.2	554.4	114.3	74.8
Applicable income taxes	4.9	122.6	10.9	30.9	104.6	33.1	15.7
Income before extraordinary items and other adjustments	12.7	424.6	1.7	77.4	449.8	81.2	59.2
Extraordinary items and adjustments, net of taxes	-0.7	5.2	1.1	0.2	0.3	1.1	0.1
Net income	12.0	429.8	2.8	77.6	450.0	82.3	59.2
Total cash dividends declared	10.2	204.5	18.9	101.2	152.1	15.3	54.8
Recoveries credited to allowance for possible loan losses	3.4	56.1	14.8	10.0	45.0	18.4	3.4
Losses charged to allowance for possible loan losses	8.3	255.6	99.2	54.7	193.2	51.4	14.1
Net loan losses	4.9	199.5	84.4	44.7	148.2	33.0	10.7

Ratio to total operating income							
Interest on deposits	48.4	39.3	45.9	36.4	41.1	37.1	36.7
Other interest expense	2.8	7.8	4.2	8.0	13.3	11.8	11.1
Salaries and employee benefits	14.4	13.7	17.9	17.3	14.0	14.9	18.4
Other noninterest expense	18.8	18.8	22.8	17.6	16.7	15.2	18.3
Total operating expenses	84.4	79.7	90.8	79.3	85.0	79.0	84.5
Ratio of net income to total equity capital (end of period)—percent	5.5	8.7	0.2	8.3	8.0	11.4	7.9

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued

(Dollar amounts in millions)

	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington
Number of banks	24	55	897	7	12	53	[illegible]
Interest income							
Interest and fee income on loans	$1,116.2	$712.7	$3,667.3	$209.8	$75.6	$830.9	$1,063.2
Income from lease financing receivables	0.3	5.7	10.1	4.6	0.1	7.9	12.4
Interest income on balances due from depository institutions	2.4	18.8	195.9	11.8	0.5	23.7	21.[illegible]
Interest and dividend income on securities	38.1	189.0	842.4	33.0	9.1	149.0	86.3
Interest income from assets held in trading accounts	0.0	6.0	11.3	1.9	—	0.4	4.0
Interest income from federal funds sold and securities purchased under agreements to resell	15.8	21.2	548.8	9.6	1.1	36.7	27.1
Total interest income	1,172.8	953.4	5,275.7	270.6	86.5	1,048.6	1,214.3
Interest expense							
Interest on deposits	157.1	446.4	2,791.0	127.6	45.7	518.0	536.2
Expense of federal funds purchased and securities sold under agreements to repurchase	41.2	76.4	631.0	21.5	1.0	74.5	44.9
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	329.4	14.4	234.4	0.9	0.3	12.6	31.8
Interest on mortgage indebtedness and obligations under capitalized leases	0.3	0.6	6.7	0.2	—	0.8	3.9
Interest on notes and debentures subordinated to deposits	17.2	4.9	20.1	1.2	0.1	1.2	10.0
Total interest expense	545.2	542.6	3,683.2	151.5	47.1	607.2	626.8
Net interest income	627.7	410.9	1,592.6	119.1	39.4	441.5	587.5
Provision for loan and lease losses	287.4	74.7	2,653.3	26.6	2.3	42.5	78.7
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noninterest income							
Service charges on deposit accounts	5.8	51.7	274.6	16.8	3.0	39.8	81.6
Other noninterest income	515.4	137.3	461.2	22.6	5.1	94.3	150.2
Total noninterest income	521.2	188.9	735.8	39.4	8.1	134.1	231.8
Gains and losses on securities not held in trading accounts	−1.6	0.3	20.9	0.6	0.2	7.2	2.4
Noninterest expense							
Salaries and employee benefits	81.6	190.6	847.8	40.8	16.9	174.8	278.1
Expenses of premises and fixed assets (net of rental income)	23.7	52.3	328.4	11.4	5.3	57.4	94.6
Other noninterest expense	420.5	167.0	1,431.6	62.2	10.0	141.5	215.6
Total noninterest expense	525.7	409.9	2,607.8	114.4	32.1	373.7	588.3
Income (loss) before income taxes and extraordinary items and other adjustments	334.2	115.5	−2,912.0	18.2	13.2	166.6	154.7
Applicable income taxes	121.5	24.9	7.9	4.0	3.6	33.5	41.4
Income before extraordinary items and other adjustments	212.6	90.6	−2,919.9	14.2	9.6	133.1	113.3
Extraordinary items and adjustments, net of taxes	0.2	0.2	4.9	0.0	0.0	—	28.9
Net income	212.9	90.8	−2,914.9	14.2	9.6	133.1	142.2
Total cash dividends declared	478.5	55.0	111.8	9.6	3.1	44.9	99.6
Recoveries credited to allowance for possible loan losses	68.8	11.5	112.8	4.4	0.4	10.6	24.3
Losses charged to allowance for possible loan losses	346.5	71.9	2,031.2	26.5	1.4	40.8	147.7
Net loan losses	277.7	60.4	1,918.5	22.0	1.0	30.2	123.4

Ratio to total operating income							
Interest on deposits	9.3	39.1	46.4	41.2	48.3	43.8	37.1
Other interest expense	22.9	8.4	14.8	7.7	1.5	7.5	6.3
Salaries and employee benefits	4.8	16.7	14.1	13.2	17.8	14.8	19.2
Other noninterest expense	26.2	19.2	29.3	23.8	16.1	16.8	21.5
Total operating expenses	63.2	83.4	104.6	85.8	83.8	82.9	84.0
Ratio of net income to total equity capital (end of period)—percent	22.4	5.8	-60.8	3.5	7.3	8.3	8.2

See notes at end of table.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, by states, June 30, 1988 — continued
(Dollar amounts in millions)

	West Virginia	*Wisconsin*	*Wyoming*	*Puerto Rico*	*DC nonnational**
Number of banks	95	116	37	1	1
Interest income					
Interest and fee income on loans	$251.3	$506.1	$47.4	$3.1	$3.2
Income from lease financing receivables	0.2	6.1	—	0.0	0.0
Interest income on balances due from depository institutions	6.3	14.3	2.6	—	—
Interest and dividend income on securities	120.2	128.5	30.5	0.7	1.3
Interest income from assets held in trading accounts	—	3.4	—	0.0	0.0
Interest income from federal funds sold and securities purchased under agreements to resell	18.4	20.9	4.9	0.3	0.2
Total interest income	396.4	679.2	85.5	4.1	4.7
Interest expense					
Interest on deposits	201.7	315.8	44.1	2.4	2.0
Expense of federal funds purchased and securities sold under agreements to repurchase	13.2	51.5	1.0	0.1	—
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	1.1	4.5	0.1	0.0	0.0
Interest on mortgage indebtedness and obligations under capitalized leases	0.2	0.6	0.1	0.0	0.0
Interest on notes and debentures subordinated to deposits	0.1	0.7	0.1	0.0	0.0
Total interest expense	216.3	373.0	45.3	2.4	2.0
Net interest income	180.1	306.2	40.1	1.7	2.7
Provision for loan and lease losses	10.9	24.5	4.7	0.2	0.3
Provision for allocated transfer risk	0.0	0.0	0.0	0.0	0.0
Noninterest income:					
Service charges on deposit accounts	8.5	28.4	3.9	0.2	0.3
Other noninterest income	19.1	155.9	5.0	0.2	0.1
Total noninterest income	27.6	184.2	8.9	0.4	0.4
Gains and losses on securities not held in trading accounts	2.1	1.0	0.9	—	0.0
Noninterest expense					
Salaries and employee benefits	65.7	138.0	16.6	0.7	1.2
Expenses of premises and fixed assets (net of rental income)	18.9	41.1	4.6	0.2	0.2
Other noninterest expense	48.0	106.0	14.9	0.7	0.7
Total noninterest expense	132.5	285.1	36.1	1.7	2.1
Income (loss) before income taxes and extraordinary items and other adjustments	66.4	181.8	9.1	0.2	0.7
Applicable income taxes	13.5	55.1	2.0	0.0	0.2
Income before extraordinary items and other adjustments	52.9	126.7	7.1	0.2	0.5
Extraordinary items and adjustments, net of taxes	—	23.0	0.9	0.0	0.0
Net income	52.9	149.7	8.0	0.2	0.5
Total cash dividends declared	28.6	40.0	1.2	0.0	0.0
Recoveries credited to allowance for possible loan losses	2.9	10.0	4.2	—	0.1
Losses charged to allowance for possible loan losses	13.2	114.7	8.6	0.0	0.3
Net loan losses	10.4	104.7	4.4	0.0	0.2

Ratio to total operating income:					
Interest on deposits	47.6	36.6	46.8	52.9	38.4
Other interest expense	3.4	6.6	1.3	1.3	0.6
Salaries and employee benefits	15.5	16.0	17.6	15.9	22.7
Other noninterest expense	15.8	17.0	20.6	21.3	18.2
Total operating expenses	82.3	76.2	86.3	91.4	79.9
Ratio of net income to total equity capital (end of period)—percent	6.2	12.6	5.0	3.5	6.5

*Nonnational banks in the District of Columbia are supervised by the Comptroller of the Currency. Nonnational bank data are not included in U.S. aggregates.

NOTES: Foreign offices are defined to include Edge Act and Agreement subsidiaries in the U.S., branches located in Puerto Rico, the Virgin Islands and U.S. Trust Territories and branches and subsidiaries located in foreign countries. Dashes indicate amounts of less than $50,000. Data are from the consolidated reports of condition filed quarterly by all national banks

Year-to-date income and expenses of foreign and domestic offices and subsidiaries of national banks, June 30, 1988

(Dollar amounts in millions)

	4,477 banks*	
	Consolidated foreign and domestic	Percent distribution
Interest income		
Interest and fee income on loans	$58,255	74.2
Income from lease financing receivables	1,231	1.6
Interest income on balances due from depository institutions	3,584	4.6
Interest and dividend income on securities	10,995	14.0
Interest income from assets held in trading accounts	1,547	2.0
Interest income from federal funds sold and securities purchased under agreements to resell	2,885	3.7
Total interest income	78,497	100.1
Interest expense		
Interest on deposits	36,380	75.9
Expense of federal funds purchased and securities sold under agreements to repurchase	6,092	12.7
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	4,978	10.4
Interest on mortgage indebtedness and obligations under capitalized leases	79	0.2
Interest on notes and debentures subordinated to deposits	412	0.9
Total interest expense	47,941	100.1
Net interest income	30,556	
Provision for loan and lease losses	6,520	
Provision for allocated transfer risk	55	
Noninterest income		
Service charges on deposit accounts	2,890	21.2
Other noninterest income	10,751	78.8
Total noninterest income	13,641	100.0
Gains and losses on securities not held in trading accounts	283	
Noninterest expense		
Salaries and employee benefits	13,727	44.9
Expenses of premises and fixed assets (net of rental income)	4,764	15.6
Other noninterest expense	12,092	39.5
Total noninterest expense	30,583	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	7,322	
Applicable income taxes	2,801	
Income before extraordinary items and other adjustments	4,521	
Extraordinary items and adjustments, net of taxes	173	
Net income	4,694	
Total cash dividends declared	3,814	
Recoveries credited to allowance for possible loan losses	1,343	
Losses charged to allowance for possible loan losses	7,830	
Net loan losses	6,487	
Ratio to total operating income		
Interest on deposits	39.5	
Other interest expense	12.5	
Salaries and employee benefits	14.9	
Other noninterest expense	18.3	
Total operating expenses	85.2	
Ratio of net income (annualized) to:		
Total assets (end of period)	0.52	
Total equity capital	9.12	

*Reporting national banks. Does not include the nonnational bank in the District of Columbia.

Deposits of national banks, by states, June 30, 1988
(Dollar amounts in millions)

	Total demand deposits at domestic offices	NOW and automatic transfer accounts	Money market deposit accounts	Other large time deposits	All other time deposits at domestic offices	Total deposits at foreign offices	Total consolidated deposits
All national banks	$263,249	$108,307	$213,355	$204,312	$372,909	$198,809	$1,360,942
Alabama	2,090	1,339	1,762	1,919	4,269	247	11,626
Alaska	613	120	429	318	461	1	1,941
Arizona	3,213	1,236	3,500	1,683	5,387	0	15,020
Arkansas	1,487	1,249	1,308	1,058	3,223	0	8,324
California	32,421	12,778	26,934	17,649	36,441	28,135	154,358
Colorado	3,486	1,831	2,852	2,073	3,563	159	13,964
Connecticut	4,511	1,449	3,074	1,409	4,848	266	15,556
Delaware	232	72	1,729	3,458	1,241	56	6,788
District of Columbia*	2,698	1,195	3,492	2,350	2,145	2,396	14,277
Florida	13,748	8,116	15,175	9,456	19,612	831	66,939
Georgia	7,048	2,326	4,940	4,071	7,208	741	26,333
Hawaii	49	32	26	33	78	0	219
Idaho	698	561	954	380	1,782	0	4,375
Illinois	14,520	4,620	8,864	14,349	19,627	24,814	86,793
Indiana	4,512	2,539	3,199	2,636	9,536	260	22,682
Iowa	1,544	1,027	1,158	482	3,711	0	7,922
Kansas	1,603	1,206	1,637	1,301	3,447	0	9,194
Kentucky	2,140	1,369	1,290	1,396	4,445	244	10,884
Louisiana	3,405	1,229	3,876	3,740	4,367	361	16,979
Maine	510	290	609	256	1,149	0	2,814
Maryland	3,871	1,156	3,319	2,364	5,438	865	17,012
Massachusetts	7,481	2,297	8,385	6,195	6,701	7,795	38,854
Michigan	7,782	2,364	5,967	4,678	13,357	2,548	36,695
Minnesota	5,303	2,471	3,282	6,416	7,448	2,221	27,142
Mississippi	1,332	761	1,202	1,383	2,850	0	7,528
Missouri	5,073	2,300	3,015	3,292	6,480	275	20,435
Montana	697	444	582	222	1,328	0	3,273
Nebraska	1,485	1,176	1,183	593	3,718	0	8,155
Nevada	1,019	425	628	274	1,080	0	3,425
New Hampshire	608	478	772	893	1,552	0	4,302
New Jersey	12,400	3,889	8,750	6,287	17,015	427	48,768
New Mexico	900	717	922	880	1,615	0	5,033
New York	37,079	7,722	25,428	22,539	31,091	107,565	231,424
North Carolina	6,117	2,818	5,131	6,631	9,634	2,595	32,926
North Dakota	363	449	330	226	1,236	0	2,603
Ohio	9,893	5,239	9,152	8,233	23,139	1,645	57,301
Oklahoma	2,688	1,641	2,046	2,225	4,972	31	13,603
Oregon	2,249	1,511	2,327	1,067	3,904	0	11,059
Pennsylvania	14,235	5,217	14,212	12,101	22,645	8,180	76,589
Rhode Island	1,225	472	1,259	2,034	2,836	1,117	8,942
South Carolina	2,306	1,422	1,619	836	3,183	0	9,366
South Dakota	487	460	555	1,461	1,831	0	4,794
Tennessee	3,593	2,165	1,786	2,761	7,286	231	17,824
Texas	20,580	8,928	13,145	31,524	27,200	3,076	104,452
Utah	982	590	851	633	1,953	122	5,130
Vermont	273	175	278	172	821	0	1,717
Virginia	3,647	2,110	2,514	3,388	7,842	260	19,761
Washington	4,957	2,119	4,509	2,625	7,483	1,269	22,963
West Virginia	1,131	779	860	655	4,471	0	7,896
Wisconsin	2,670	1,137	2,203	1,371	5,598	77	13,056
Wyoming	288	285	336	295	641	0	1,845
Puerto Rico	10	6	0	40	24	0	80
Virgin Islands	0	0	0	0	0	0	0

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
Note: Figures may not add to totals due to rounding.

Loans of national banks by states, June 30, 1988
(Dollar amounts in millions)

	Total loans gross	Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans less unearned income	Total loans at foreign offices
All national banks	$1,161,725	$366,193	$13,534	$363,110	$210,754	$65,665	$1,152,369	$142,469
Alabama	9,117	3,336	47	3,515	1,946	273	8,959	0
Alaska	1,191	428	2	634	108	17	1,191	1
Arizona	11,693	4,156	452	3,403	3,065	616	11,682	0
Arkansas	5,325	2,240	184	1,657	1,092	152	5,276	0
California	140,537	48,754	1,904	31,838	18,717	8,633	140,323	30,692
Colorado	9,706	3,795	467	3,041	1,931	464	9,696	9
Connecticut	14,947	7,234	24	4,720	2,588	328	14,793	53
Delaware	17,902	959	2	574	16,265	103	17,858	0
District of Columbia*	11,388	4,807	0	3,911	984	945	11,340	742
Florida	53,830	25,531	169	13,675	13,283	1,027	52,925	145
Georgia	23,009	7,896	77	8,037	5,817	1,000	22,916	181
Hawaii	139	76	0	47	13	2	139	0
Idaho	3,740	950	355	1,273	1,048	114	3,726	0
Illinois	67,234	14,407	801	28,305	6,431	6,082	66,838	11,208
Indiana	17,694	5,955	302	6,001	4,601	732	17,592	104
Iowa	5,102	1,621	474	1,411	1,415	181	5,076	0
Kansas	5,441	1,761	684	1,690	1,118	187	5,424	0
Kentucky	8,826	2,739	114	3,255	2,021	656	8,687	41
Louisiana	11,895	4,301	78	4,562	2,169	432	11,800	353
Maine	2,640	1,436	12	765	415	12	2,620	0
Maryland	15,640	5,992	39	4,809	3,390	973	15,576	437
Massachusetts	42,109	14,061	26	15,502	3,861	3,690	41,938	4,969
Michigan	27,551	9,059	111	10,347	4,727	1,853	27,527	1,454
Minnesota	22,422	5,270	434	10,592	3,405	2,138	22,304	583
Mississippi	5,115	1,932	68	1,598	1,369	149	4,992	0
Missouri	15,585	5,815	287	5,139	2,892	1,298	15,520	154
Montana	1,671	471	219	556	410	16	1,666	0
Nebraska	5,076	1,150	964	1,318	1,365	279	5,075	0
Nevada	6,587	870	17	840	4,809	51	6,579	0
New Hampshire	4,116	1,542	1	897	1,645	31	4,113	0
New Jersey	41,441	18,869	13	14,878	6,552	969	40,944	161
New Mexico	3,410	1,563	97	940	727	83	3,380	0
New York	201,854	41,738	313	47,436	17,606	11,084	198,152	83,677
North Carolina	30,296	12,062	229	11,230	4,639	1,682	30,275	455
North Dakota	1,489	452	234	451	326	25	1,488	0
Ohio	48,734	14,722	327	16,152	14,778	2,510	48,459	243
Oklahoma	7,301	2,988	476	2,405	1,023	409	7,268	0
Oregon	9,222	2,458	233	4,170	1,863	462	9,202	36
Pennsylvania	64,950	16,707	125	29,404	9,122	6,274	64,408	3,318
Rhode Island	8,652	3,510	2	3,015	989	1,045	8,642	91
South Carolina	7,991	2,927	50	2,843	1,933	239	7,879	0
South Dakota	14,175	497	296	1,211	12,064	107	14,155	0
Tennessee	14,409	5,291	67	5,287	3,205	557	14,235	1
Texas	80,720	30,851	1,460	31,405	9,160	5,254	80,105	2,589
Utah	4,257	1,565	77	1,382	1,057	176	4,247	0
Vermont	1,472	870	15	369	213	5	1,472	0
Virginia	16,853	6,745	120	4,887	4,554	528	16,756	19
Washington	21,082	7,414	738	6,417	4,691	1,156	21,058	666
West Virginia	4,962	2,271	12	1,093	1,504	83	4,892	0
Wisconsin	10,296	3,858	217	3,905	1,652	575	10,275	89
Wyoming	877	276	117	302	177	6	874	0
Puerto Rico	53	19	0	17	17	0	52	0
Virgin Islands	0	0	0	0	0	0	0	0

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.
Note: Figures may not add to totals due to rounding.

Outstanding balances, credit cards and related plans of national banks, June 30, 1988
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,478	2,340	$62,806,102
Alabama	54	17	249,589
Alaska	3	2	53,279
Arizona	15	14	730,500
Arkansas	84	15	192,666
California	167	149	9,497,724
Colorado	230	204	680,978
Connecticut	17	10	494,976
Delaware	18	18	15,546,569
District of Columbia	21	17	145,734
Florida	155	72	2,218,630
Georgia	57	38	1,897,507
Hawaii	3	1	2,970
Idaho	6	6	460,996
Illinois	377	196	1,004,078
Indiana	101	81	872,819
Iowa	102	52	553,102
Kansas	166	41	219,245
Kentucky	80	33	166,097
Louisiana	63	24	409,959
Maine	7	7	64,305
Maryland	26	17	1,445,517
Massachusetts	41	32	947,102
Michigan	83	59	1,336,731
Minnesota	169	116	477,875
Mississippi	28	10	97,812
Missouri	99	54	536,009
Montana	57	32	21,190
Nebraska	112	42	654,444
Nevada	7	5	4,321,999
New Hampshire	20	15	1,130,476
New Jersey	64	46	722,944
New Mexico	42	14	181,477
New York	103	65	3,440,169
North Carolina	15	14	935,406
North Dakota	29	10	33,385
Ohio	137	102	3,594,998
Oklahoma	200	71	40,468
Oregon	7	6	597,283
Pennsylvania	166	77	730,683
Rhode Island	5	4	271,982
South Carolina	22	17	295,921
South Dakota	24	9	766,824
Tennessee	55	25	603,855
Texas	897	292	356,967
Utah	7	4	174,746
Vermont	12	4	37,150
Virginia	53	24	1,104,786
Washington	22	13	1,850,395
West Virginia	95	30	81,750
Wisconsin	116	104	536,534
Wyoming	37	28	10,039
Puerto Rico	1	1	7,063
Virgin Islands	0	0	0
District of Columbia—all*	22	18	146,133

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

National banks engaged in lease financing, June 30, 1988
(Dollar amounts in thousands)

	Total number of national banks	Number of banks engaged in lease financing	Amounts of lease financing at domestic offices
All national banks	4,478	1,019	$22,435,014
Alabama	54	5	65,296
Alaska	3	1	7,245
Arizona	15	4	282,101
Arkansas	84	28	13,667
California	167	52	4,227,226
Colorado	230	80	100,220
Connecticut	17	2	661
Delaware	18	2	98,322
District of Columbia	21	6	58,169
Florida	155	25	263,542
Georgia	57	13	481,689
Hawaii	3	1	1,514
Idaho	6	3	56,003
Illinois	377	91	265,543
Indiana	101	45	380,128
Iowa	102	16	9,524
Kansas	166	32	31,449
Kentucky	80	24	163,631
Louisiana	63	12	39,378
Maine	7	2	6,923
Maryland	26	6	483,109
Massachusetts	41	17	2,420,670
Michigan	83	20	415,685
Minnesota	169	71	242,834
Mississippi	28	3	1,597
Missouri	99	24	192,781
Montana	57	8	748
Nebraska	112	26	67,561
Nevada	7	2	7,759
New Hampshire	20	5	9,496
New Jersey	64	14	275,420
New Mexico	42	15	15,421
New York	103	23	5,416,511
North Carolina	15	6	885,497
North Dakota	29	14	8,583
Ohio	137	64	1,330,823
Oklahoma	200	45	11,867
Oregon	7	3	232,559
Pennsylvania	166	33	1,684,810
Rhode Island	5	2	934,395
South Carolina	22	4	73,361
South Dakota	24	8	3,903
Tennessee	55	17	113,600
Texas	897	72	450,760
Utah	7	5	96,252
Vermont	12	1	1,836
Virginia	53	7	146,248
Washington	22	8	216,973
West Virginia	95	8	2,246
Wisconsin	116	38	138,687
Wyoming	37	6	791
Puerto Rico	1	0	0
Virgin Islands	0	0	0
District of Columbia—all*	22	6	58,169

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency.

Consolidated foreign and domestic loans and leases past due at national banks, by states, June 30, 1988

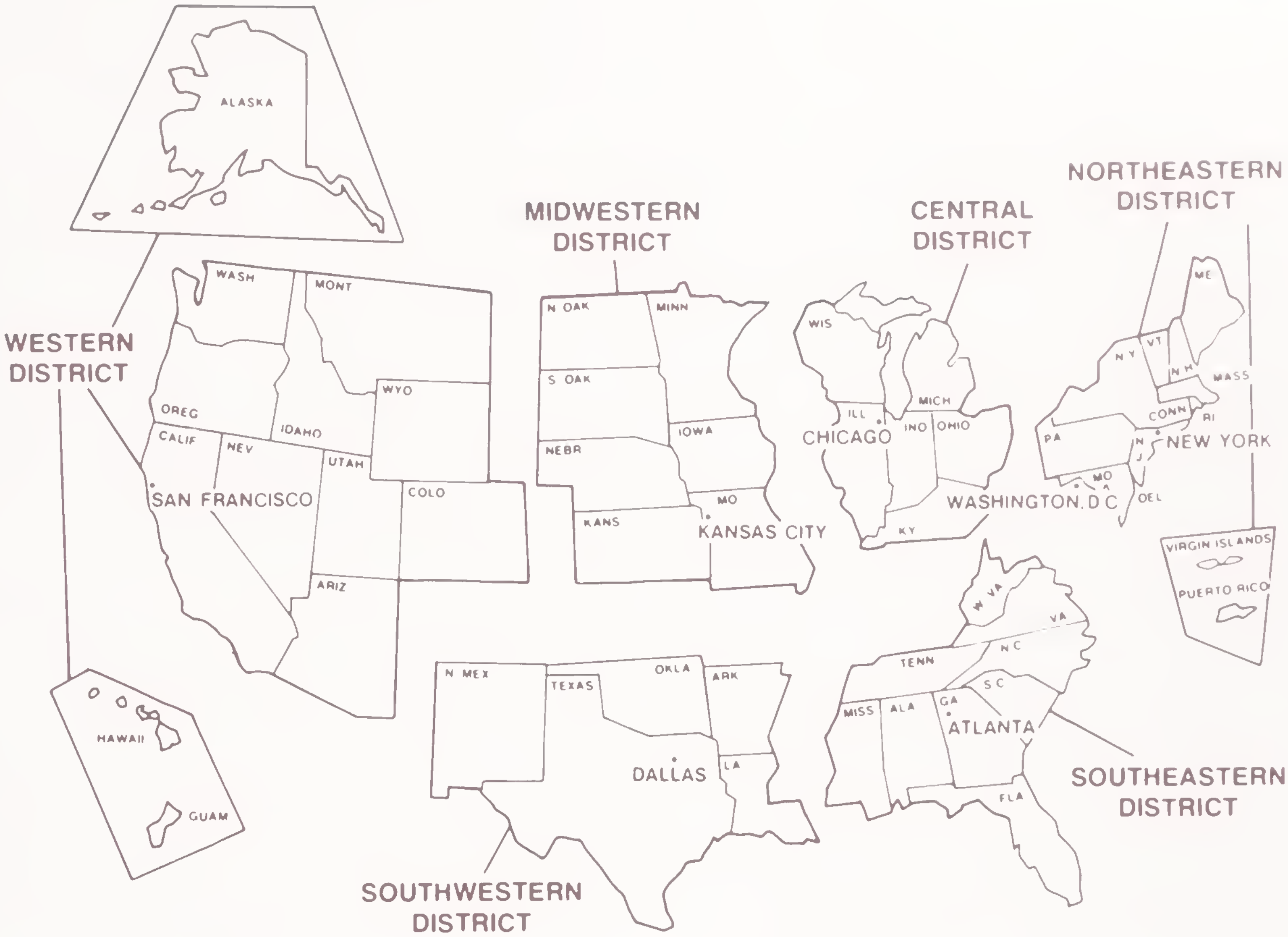
(Dollar amounts in millions)

	Number of banks	Type of loans: Real estate	Commercial and industrial	Personal	Leases	Other loans	Total loans	To non U.S. addresses*
Reporting national banks	4,478	$19,426.9	$17,438.3	$7,226.34	$331.653	$15,290.5	$59,713.7	$6,485.63
Alabama	54	72.5	65.4	57.64	0.065	20.6	216.1	0.63
Alaska	3	59.5	32.0	2.58	0.165	14.6	108.8	0.00
Arizona	15	403.7	148.8	51.38	1.856	51.7	657.4	11.67
Arkansas	84	123.5	27.9	29.06	0.229	84.0	264.6	0.00
California	167	2,075.6	2,355.2	532.18	63.926	3,316.5	8,343.5	793.75
Colorado	230	294.6	49.7	64.41	2.499	261.3	672.5	0.00
Connecticut	17	169.7	198.3	79.64	0.000	65.3	513.0	0.00
Delaware	18	65.7	7.7	635.78	1.784	2.3	713.2	0.00
District of Columbia	22	257.6	105.1	21.17	0.117	61.2	445.2	7.94
Florida	155	849.7	293.6	259.52	4.659	96.9	1,504.1	22.07
Georgia	57	244.6	232.7	132.48	14.989	85.3	710.1	2.11
Hawaii	3	0.5	0.0	0.23	0.000	0.8	1.6	0.00
Idaho	6	40.9	22.2	18.67	0.159	18.8	100.7	0.00
Illinois	377	418.1	827.7	198.10	2.220	1,103.2	2,549.3	412.28
Indiana	101	112.1	109.5	107.60	4.020	79.9	413.1	4.43
Iowa	102	36.9	11.7	38.99	0.222	56.1	143.9	0.00
Kansas	166	49.0	17.7	20.87	1.309	87.5	176.3	0.00
Kentucky	80	108.0	29.2	35.52	1.432	52.3	226.5	0.00
Louisiana	63	351.7	258.7	99.63	2.561	103.6	816.2	0.00
Maine	7	33.1	16.1	11.11	0.014	3.8	64.3	0.00
Maryland	26	61.5	80.9	124.39	3.889	36.8	307.5	34.88
Massachusetts	41	548.3	643.2	116.86	64.789	599.0	1,972.1	207.94
Michigan	83	211.0	178.9	126.45	3.240	97.3	617.0	3.46
Minnesota	169	249.4	346.9	75.09	0.991	414.1	1,086.4	22.10
Mississippi	28	72.7	15.4	46.40	0.000	21.2	155.7	0.00
Missouri	99	178.5	218.3	69.68	1.641	198.9	667.1	39.97
Montana	57	29.3	0.0	9.57	0.430	61.3	100.6	0.00
Nebraska	112	36.1	10.8	36.22	1.282	65.3	149.7	0.00
Nevada	7	39.9	41.5	173.61	0.127	2.9	258.0	0.00
New Hampshire	20	39.1	16.0	25.17	0.000	13.6	93.8	0.00
New Jersey	64	458.5	433.4	159.81	8.483	93.3	1,153.5	16.37
New Mexico	42	81.5	28.2	19.67	0.355	68.2	197.9	0.00
New York	103	2,204.1	5,649.0	1,291.19	46.671	4,809.2	14,000.2	4,335.76
North Carolina	15	198.2	180.0	88.83	3.800	32.3	503.2	8.53
North Dakota	29	16.0	18.4	8.08	0.186	28.0	70.7	0.00
Ohio	137	372.1	456.4	382.30	25.140	190.8	1,426.7	21.98
Oklahoma	200	317.6	60.4	31.66	0.000	190.7	600.3	0.00
Oregon	7	142.9	79.8	32.89	0.425	31.6	287.5	1.54
Pennsylvania	166	665.1	1,097.8	228.68	21.386	783.4	2,796.3	249.22
Rhode Island	5	135.0	78.4	23.41	20.122	11.4	268.2	5.64
South Carolina	22	102.9	31.6	29.49	1.285	25.1	190.4	0.00
South Dakota	24	13.0	63.4	1,011.58	0.406	26.8	1,115.2	0.00
Tennessee	55	144.6	179.8	89.50	3.129	50.0	467.1	1.60
Texas	897	6,363.1	2,248.6	321.06	4.000	1,486.9	10,423.6	220.54
Utah	7	119.5	48.5	29.02	2.327	8.1	207.4	0.00
Vermont	12	13.4	10.6	5.71	0.000	4.4	34.2	0.00
Virginia	53	203.8	74.2	82.88	1.670	69.9	432.5	0.00
Washington	22	420.7	265.1	101.17	3.769	142.6	933.4	43.59
West Virginia	95	82.0	8.6	52.92	0.149	45.2	188.9	0.00
Wisconsin	116	119.0	65.1	30.99	9.735	71.1	295.9	17.64
Wyoming	37	21.0	0.0	5.01	0.000	45.4	71.4	0.00
Puerto Rico	1	0.0	0.0	0.47	0.000	0.3	0.8	0.00

NOTE: These figures are fully consolidated foreign and domestic for all reporters.

*Includes past due real estate and commercial and industrial loans and lease financing receivables for banks with foreign offices and/or assets of $300 million or more.

Index



Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036

FTS	8-265-3495
Commercial	212-819-9860

Central District

Chicago District Office
One Financial Plaza
Suite 2700
440 South LaSalle Street
Chicago, IL 60605

FTS	8-364-8000
Commercial	312-663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

Commercial	214-720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N.E.
Atlanta, GA 30303

Commercial	404-659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City, MO 64108

FTS	8-758-0800
Commercial	816-556-1800

Western District

San Francisco District Office
50 Fremont Street
Suite 3900
San Francisco, CA 94105

FTS	8-449-9900
Commercial	415-545-5900

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